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Folder Title: Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 3

Folder ID: 1598696

Series: Reading file

Dates: 08/18/1965 – 12/23/1965

Fonds: Personal papers of Irving S. Friedman

ISAD Reference Code: WB IBRD/IDA FRIEDMAN-01

Digitized: 09/08/2023

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series 5540

Irving S. Friedman Chron Files

1965 (3)



 **Archives**
R2000-036 Other # 1 Box # 210170B
Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 3

1598696

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Files

December 23, 1965

Irving S. Friedman

Federal Reserve Bank of New York and World Bank Bond Issue

I telephoned Mr. Coombs with respect to the question of balance of payments' impact of a World Bank bond issue in New York. I recalled our discussion in Basle on the same subject. In Basle we had agreed that a World Bank bond issue would not only have no unfavorable impact on the balance of payments but indeed would make some contribution. Mr. Coombs said that he still accepted this argument and had passed it on to Mr. Hayes and that they both agreed on this. Their views had not changed.

I referred to the discussions which had been held with the World Bank managing underwriters. He said that there was probably a misunderstanding. Mr. Hayes had stated that in the long run a bond issue would be a debit on the balance of payments. Mr. Hayes fully recognized that this was not true in the short run. Perhaps those in the meeting had not understood this distinction. We discussed this briefly, and Mr. Coombs took the point that the "short-run" in this case was a number of years. He would make sure that Mr. Hayes understood this.

Mr. Coombs felt that the entire matter would be best handled by the Secretary of the Treasury announcing at an appropriate time that the World Bank issue had his approval.

With respect to the impact of phone calls from Fed staff to World Bank bond holders, he thought that this sort of thing had happened in a number of different cases -- frequently the Fed staff telephoned for statistical reasons but such telephone calls were at times misinterpreted. The Fed clearly was not discouraging the purchase of World Bank bonds. If there were any complaints or misunderstandings, the Fed would be glad to clear them up. Mr. Coombs was well aware of the Guide Lines and the preference given to the less developed countries. The conversation was most cordial throughout.

cc: Mr. Wilson
Mr. Cavanaugh

December 23, 1965

My dear Meenai,

I am writing with two purposes in mind. The first is to wish you the best of everything in 1966 and to hope that all goes well with you and your family. The second is to tell you that we are still keeping an office and desk for you. I am hoping that you will find it possible to join us. I know that these have been very troubled and turbulent times for your country and therefore for you. I am not asking when but only wish you to know that I am still keeping the place open and hope very much that at some time you will be able to accept the offer.

The work has been very interesting this year, and I am completely confident that you would enjoy both the people and the challenge of what we are trying to accomplish.

With warm regards to you and your family,

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. S. A. Meenai
State Bank of Pakistan
Central Directorate
Karachi, West Pakistan

December 23, 1965

Dear Giorgio:

I was most sorry to learn that you were not very well. I trust that you have recovered by now. Basle proved to be a very interesting weekend, but I only stayed for the weekend and then went back to Washington. The work here continues to be very interesting and I am enjoying my relations with Woods. I do hope that it will not be too long before we have the opportunity to see each other. I may be coming to Europe around February-March and perhaps with Edna.

The family here is fine. They are all back from school, and the house is crowded again. We do wish that you and Doria were able to share the Christmas with us. It would be like old times.

With best wishes,

Yours sincerely,

Mr. Giorgio Cigliana-Piazza
Vice President
Morgan Guaranty Trust Co
C/o Grand Hotel
Rome, Italy

ISFriedman:cn

December 23, 1965

PERSONAL

DECLASSIFIED

AUG 16 2023

WBG ARCHIVES

Dear Gabriel,

I would like to say how much I enjoyed my visit to Basle, and I, as always, found it most profitable. I do hope that you and the family had a Merry Christmas and will have a fine New Year's.

You will recall that I mentioned the Society for International Development. I am enclosing some literature on it which, I believe, is more or less self-explanatory. The Patrons of this Society have been donating a \$1,000 a year but most of our income comes from Foundation grants. You also mentioned that you might be able to speak to Formentini when he comes. I had hoped to be able to approach the European Investment Bank myself, but it would be wonderful if you could do so with him when you see him next. It would do a great deal for the prestige of the Society to have these two institutions join our very select group of Patrons. I do believe the Society is worthwhile, and as you know, I do feel that even strictly monetary institutions have a proven interest in knowing about the less developed world and in making their contribution from their rich experience to the less developed world.

With best wishes for the New Year,

Yours sincerely,

Irving S. Friedman

Mr. Gabriel Ferras
General Manager
Bank for International Settlements
Basle, Switzerland

December 23, 1965

Dear Giorgio,

I was most sorry to learn that you are not very well. Basle proved to be a very interesting weekend, but I only stayed for the weekend and went back to Washington. The work here continues to be very interesting and I am enjoying my relations with Woods. I do hope that it will not be too long before we have the opportunity to see each other. I may be coming to Europe around February-March and perhaps with Edna.

The family here is fine. They are all back from school, and the house is crowded again. We do wish that the both of you were able to share the Christmas with us. It would be like old times.

With best wishes,

Yours sincerely,

Irving S. Friedman

Files

December 17, 1965

Irving S. Friedman

Development Financing

In connection with our forthcoming work on raising funds for development financing, particularly in Europe, I am creating a working group to consult with me this problem. I am proposing for the members of this group - Mr. King, Mr. Sarma, Mr. Thompson, Mr. Van der Mel, Mr. Tamagna and Mr. de Fontenay.

cc: Mr. Sarma
Mr. Thompson
Mr. Van der Mel
Mr. Tamagna
Mr. de Fontenay

ISFriedman:cn

Mr. George D. Woods

December 17, 1965

Irving S. Friedman

Visit to BIS - December Meeting

I found the visit to the BIS meeting worthwhile. It gave me the opportunity to speak privately not only to Mr. Ferras, Milton Gilbert in the BIS itself, but also to a number of Governors of the European Central Banks and Directors of their banks, plus Mr. Hayes and Mr. Coombs of the Federal Reserve Bank of New York and Mr. Mayekawa, Director of the Bank of Japan. The presence of Mr. Elizalde at the meeting added considerable spice to the discussions. There were all sorts of conjectures as to why he was there. Many told me that he had made a fine impression.

My various discussions fall within three or four categories, namely, investment by Central Banks in World Bank paper, reactions to the Supplementary Finance Scheme and the need for a systematic attack on the problem of how to raise more capital for developmental purposes. Before reporting briefly on these matters, I would like to make a few more general comments.

- (a) There is a general acceptance of the Bank's \$3 - 4 billion figure of additional need which could be used effectively. It now seems to have entered into the European thinking as well as elsewhere as a "hard" estimate which must be taken into consideration when considering future aid.
- (b) The prestige and reputation of the World Bank is said to be higher than ever. The efforts in recent years to extend the scope of the Bank's interest has seemingly not diminished the Bank's reputation as a hard headed sound institution.

I. Purchase of World Bank Bonds by Central Banks

One of the activities of the weekend at the BIS was the meeting of the Committee on "Multilateral Surveyance" which meets every two months to consider the economic situation and outlook in Italy. I was told by Mr. Baffi of Italy that in the course of talks Mr. Holtrop criticized the policy of Italy in investing in World Bank notes. Mr. Holtrop felt that Italy should instead keep its reserves available for further expansion of the Italian economy. Mr. Holtrop also gave some rather theoretical arguments on the proper use of reserves. It is said that he has been made sensitive to this problem because of the proposals made to link the performance of the international monetary system to the extension of development finance. I was also told that at the meeting Messrs. Carli and Reminger indicated their disagreement with Holtrop and supported the policy

of investing reserves in World Bank notes. Mr. Coombs felt they had been answered adequately.

Having been informed of this, it was then possible for me in conversing with a number of different people including the Italians, the Germans, the French and the Dutch to give reasons why it was reasonable for Central Banks to invest part of their reserves in World Bank notes and indeed, this could be done in much larger amounts without going contrary to Central Bank practices and experience. My principal argument was that no well-run country ever gets into a position of exhausting its reserves; therefore, there was always a considerable portion of reserves that were simply locked up for the ultimate contingency. These reserves played no role in the settlement of international balance of payments deficits and, therefore, the forms in which they are held need not be subject to the same rigorous rules as the forms in which reserves are held which may have to be encashed to meet balance of payments deficits. On the World Bank side we did not sell these two year notes to Central Banks in order to reform the monetary system or even to obtain additional development finance. Rather, it was to overcome the anomaly of the World Bank having to set aside a large amount of resources to meet disbursements which could have as their counterpart short-term borrowing. This would help the World Bank as a financial institution to use resources for development which it had obtained in other ways such as long-term borrowing and amortization and interest on outstanding investments. Various people to whom I spoke said that they found the arguments given convincing and would make use of them when the question arose again.

As to the amounts which could be sold, Mr. Coombs thought that the Italians might be willing to invest \$200 million in two year notes and perhaps the French would go for \$50 to \$100 million. Without trying to guess what the outcome of any talks would be, my guess is that you could begin talks with the French and Italians in these magnitudes without their being horrified. Germany has now become much more reluctant to add to the holding of World Bank paper by the Bundesbank. The principal reason is that the deterioration in their balance of payments, which is expected to continue for some months, may result in a situation that a large portion of their dollar reserves (i.e. excluding gold) would be held in World Bank paper. The German approach on this seems to be quite practical; so much would depend on how much of the deficit materialized. Mr. Blessing and Mr. Tungeler remarked that if more than one-third of their Bank's dollar assets were held in World Bank paper, this could be regarded as too much. Germany's dollar assets now amount to \$1.9 billion.

II. World Bank Bond Issues

The Germans feel that a World Bank bond issue would not be feasible during the first six months of 1966 because of conditions in their capital market and their balance of payment position; however, they would hope that these obstacles would be overcome by the middle of 1966.

Mr. Hayes of the National Bank of Switzerland seemed to feel that a World Bank bond issue in 1966 would be possible because of the improvement in the balance of payments situation. There was, of course, a long line of waiting investors while at the same time foreigners were selling off their Swiss securities to obtain funds for investment elsewhere. He said that early 1966 would be the best time for a new bond issue if it were to take place. The Bank of France people (Clappier and Bouchet) said that they very strongly hoped that there would be a World Bank bond issue soon. I gathered that by this they mean early 1966. They feel that it is very much in the interest of France to encourage foreign borrowing in France and believe that the highest priority should go to the World Bank. They are considering an Inter-American Bank bond issue in 1966, and these individuals at least would like to see the World Bank borrow before the Inter-American Bank.

III. Supplementary Finance Scheme

I had a number of opportunities to discuss the Supplementary Finance Scheme both in groups and with individuals. One occasion was a discussion-dinner party given by Mr. Ferras for a number of the leading people there. At this occasion the British, the Germans, Americans, Italians (and Elizalde) responded quite favorably - the British at greatest length. Questions were raised by others and I had the impression that our views were accepted with considerable open-mindedness and interest. I brought away from these various discussions the feeling that our emphasis on performance is what is making the proposal attractive to the Europeans. It was interesting that no one raised the question of whether the Supplementary Finance Scheme would be at the expense of IDA replenishment. They rather saw it as a new and hopeful attack on the foreign aid program which might bring about an important shift in the allocation of resources between their bilateral programs and multilateral programs rather than among the various multilateral programs. However, a number expressed the view that if such a scheme were to gain acceptance, it would have to be on the basis that it would be run by the World Bank. I expressed our views on this matter including the emphasis we place on Bank/Fund collaboration.

IV. New Approach to Development Finance

I explored with a number of Governors on a purely personal and preliminary basis the idea that an inventory needed to be taken of the problems which the capital exporting countries had in providing development finance with a view to trying to find ways and means of overcoming these problems in a manner that would carry forward the objectives of development finance. I referred to the problem we had on the U.S. balance of payments (without telling them anything that was confidential) as an example of a particular country's problem and the possibility of finding a solution within our procedures and policies once the problem was identified. I found a warm reception to the idea including the French, the Dutch, the Germans, Italians and the British. I spoke in terms of a possible visit to Europe in February or March to start an exchange of views on these matters. They all indicated they would welcome such exchange of views. The French emphasized that this would greatly improve

the "quality" of the relations between the World Bank and Europe which they would welcome.

I would be glad to provide more details on any of the above if so desired.

Mr. Michael L. Lejeune

December 17, 1965

Irving S. Friedman

Recruitment of Economists

I should like to have the following information:

- (1) How many vacancies for economists are there now in each Department and do we have a judgment yet on how many more will be needed?
- (2) How many recruits for the economic work can we expect to get from the Junior Professional Program and to what extent have we been turning down suitable candidates within the age bracket of the Junior Professional Program because either we could not accommodate them within the Program itself or because of nationalities or size of Program or unwillingness of individuals to be included in such a Program or to be called Junior Professionals (I know this is a problem among the Americans -- is it a problem with other nationalities)?

Assignments on Major Policy Questions

1. Raising of capital finance

See memorandum given to Kalmanoff.

2. Suppliers's Credit

Nespoulous Neuville

Hulley

Kalmanoff

Periera Lira on an occasional basis or as commentator.

3. Indebtedness

Periera Lira

Leon

Nespoulous Neuville

Hulley

Tamagna as Adviser

4. Annual Report

Get from Kamarck and Kochav.

5. Follow-up Group on Supplementary Finance Scheme

Isaac Frank

Macone

Jalan

6. Interrelation Monetary System and Development Finance

Periera Lira

Leon

Tamagna as Adviser/

NOTE: To complete with others.

NOTE ON THE FUND STUDY

To be brought to the attention of Messrs. Frank, Kamarck, Macone and Jalan (when he returns).

- (a) Prepare a summary of Fund Study which could be transmitted to Woods and President's Council.
- (b) Prepare a draft answer to following questions:
 - (i) Assuming the Fund's proposals become a reality how would the Bank's Scheme relate to it, and
 - (ii) would it involve any changes in the Bank's scheme.

NOT SENT

Mr. George D. Woods

December 17, 1965

Irving S. Friedman

Economic Activities of the World Bank Group

Apropos of our conversation yesterday and previous ones on economic activities of the Bank, I would like to inform you that we are planning to have for you in January, a comprehensive statement on the economic activities throughout the World Bank group including the Economics Department, the Area Departments and the Projects Department and what persons are expected to carry on these activities.

This will include preparation for consultative groups, economic missions of various kinds, preparation of economic reports, general policy studies, e.g. suppliers' credits and sources of development finance, operations and basic economic research, major statistical projects, etc.

We are trying to plan ahead as far as practicable. In some fields, such as economic missions, we are already on a six months' forward basis and are considering whether we can plan even further ahead. In some cases, even longer run planning is feasible, e.g. research on margins of protection for domestic suppliers. Inevitably there are many economic activities which arise in the course of day-to-day work and for which precise forward planning is impracticable. However, even in the last category it is possible to ensure that the departments are functioning in such a way as to be able to do the unexpected work without disrupting the planned work.

I hope also to derive a judgment on what are the overall needs for economic personnel and where the next effort to strengthen the economic personnel needs to be made. I have been discussing this with Administration and will be discussing it further when the matter becomes clearer and more precise. It is already clear, however, that strengthening the economic personnel in most of the geographical departments is our most urgent personnel need, although the other departments continue to need further strengthening of economic personnel.

I hope to have some suggestions for you in the next day or two on Consultative Group assignments from Mr. Avramovic.

December 17, 1965

Dear Professor Haberler,

I will be very glad to have lunch with you on December 23. I am looking forward to another chance to exchange thoughts on a number of things that we are doing in the Bank and other matters of common interest.

Sincerely yours,

Irving S. Friedman

Dr. Gottfried Haberler
Harvard University
326 Littauer Center
Cambridge, Massachusetts -2138

Mr. A.M. Kamarck

December 16, 1965

Irving S. Friedman

Reports of UNCTAD

You have informed me that Mr. Kalmanoff is handling UNCTAD matters for the Economics Department. Do you think it would be possible for some member of his staff under his supervision could send me summaries of worthwhile documents. If important enough I would then send them on to Mr. Woods.

I am attaching a statement made by Prebisch as an example that might well be summarized very briefly.

ISFriedman:cn

Mr. A. Nespoulous-Neuville

December 16, 1965

Irving S. Friedman

Suppliers' Credits

I assume that you are keeping Kamarck and other in the Bank who might be interested, informed of any developments in our inquiry on Suppliers' Credit.

ISFriedman:cn

Mr. A.M. Kamarck

December 16, 1965

Irving S. Friedman

Mr. George Gardiner

Did I send you the file on George Gardiner?

ISFriedman:cn

December 16, 1965

Mr. Raymond F. Mikesell
W.E. Miner Professor of Economics
University of Oregon
Eugene
Oregon 97403

Dear Mike:

Please excuse my not answering your letter sooner but I was away at Basle attending their monthly meeting. I hope that if you get to Washington in January, you will look us up.

As for Woods' estimate of \$3-\$4 billion a year, we are preparing a paper on the methodology used and I will send it to you as soon as available.

I am also sending your letter to Andy Kamarck in case the Economics Department have something more to send.

As always, I shall be pleased to be of any assistance in the preparation of your new book.

With best wishes for Christmas and the New Year to you and Irene.

Cordially yours,

Irving S. Friedman

ISFriedman:cn

Mr. Bernard Bell

December 16, 1965

Irving S. Friedman

Re. Mr. A.R. Tainsh's article on "Second Thoughts on Aid"

Before sending this reply I thought that you might like to read the attached letter and enclosures. Any comments on the enclosures or the proposed reply would be much appreciated.

ISFriedman:cn

HENRY TASCA
AMERICAN AMBASSADOR

DECEMBER 16, 1965

FULL RATE

RABAT

MOROCCO

THANKS FOR CABLE CONTENTS BROUGHT TO PRESIDENTS ATTENTION STOP DOES NOT
EXPECT DISCUSS BUSINESS DURING VISIT STOP CHRISTMAS GREETINGS TO YOU AND

LENA

FRIEDMAN
INTBAFRAD

Mr. Irving S. Friedman

The Economic Adviser to the President

Mr. Antonio J. Macone

December 16, 1965

Irving S. Friedman

Supplementary Finance Study

Are there any further improvements to be made in the appendices to the Supplementary Study? Something Jalan said to me indicated that perhaps there were some further improvements that should be made. If yes, they had better be done immediately since the printing is advanced to the stage of page proofing. Any changes would be difficult and probably costly but should be made if it will improve the document.

cc: Mr. Kamarck

December 15, 1965

My dear Shenoy,

Thanks for your letter of November 24.
I appreciate your sending me the material to
read from time to time, as I find it very
interesting. I cannot always say that I
read these things immediately but am glad
to receive them and have them available.

I hope that all goes well with you and
your family,

Yours sincerely,

Irving S. Friedman

Mr. B.R. Shenoy
Director
School of Social Sciences
Gujarat University
Ahmedabad-9
India

Mr. Andrew M. Kamarok

December 10, 1965

Irving S. Friedman

Balance of Payments Work

I mentioned to Mr. Cavanaugh that I thought the three of us ought to get together to consider the balance of payments work within the Bank. I intended to have a small group within the Economics Department dealing with the balance of payments of the U.S. and other industrial countries. However, I appreciated that what little balance of payments work had been done in the past on these countries had been largely centered in the Treasurer's Department. In connection with the U.S. balance of payments effects of IBRD/IDA operations, I said I thought that he might wish to consider not only what ought to be done, but where. It was possible that some of this work might be regarded more logically as an effort already done in the Treasurer's Department. My principle concern was to ensure that the work was done somewhere and that the two Departments concerned were informed of each other's work and had the benefit of it. Mr. Cavanaugh responded favorably to this suggestion and said he would be available at anytime to discuss this.

I did not set any particular date since I thought we would probably want to discuss first how far we want to go in the balance of payments and what the Economics Department, including Hulley, might be prepared to do.

cc: Mr. Tanagna
Mr. Hulley

Mr. Nespoulous-Neuville

December 14, 1965

Irving S. Friedman

Preparation of Suppliers' Credit Study

I would appreciate it if you would involve Mr. Kalmanoff in the Study. He is an excellent economist and should prove most useful. I believe we have to assume that Mr. Pereira Lira will not be available for any serious work but rather for consultation and comment.

Mr. Kochav

December 10, 1965

Irving S. Friedman

Economic Chapter - Annual Report

Your memorandum looks as though it would be a fine basis for discussion in the committee. We should arrange to have one rather soon.

cc: Mr. Kamarck

Mr. Cope, Mr. Thompson

December 10, 1965

Irving S. Friedman

Mr. Emil G. Spitzer

I am enclosing the c.v. of Emil Spitzer, who has just retired from the Fund.

I believe he might be a useful addition on a consultative basis. If you agree I would suggest that he not be contracted on an annual basis, but some sort of monthly basis or assignment basis.

Attachment

cc: Mr. R. Clarke

FERRAS
INTERBANK
BASLE

DECEMBER 10, 1965

DIRECT

SWITZERLAND

THANKS YOUR CABLE STOP WILL BE ACCOMPANIED BY HIMAL JALAN
AN ECONOMIST STOP HOTEL BOOKINGS AT SCHWEITZERHOFF HAVE BEEN
CONFIRMED STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman

Office of the President

Mr. Kamarck

December 10, 1965

Irving S. Friedman

Consultant - R. Mikesell

What do you think about having Mikesell join our staff for
the summer as a consultant?

December 10, 1965

Dear Rodney,

We were very pleased to receive your letter of December 2. Edna and I are delighted with the idea of Linda spending some time with us in the summer of 1966. We would only make one suggestion, if it is feasible for you, that Linda come at the end of July rather than early August. The reason is that we may go away for part or the whole of the month of August to Maine, and we would, of course, take Linda with us. I am sure that she would find it very attractive and we would like to have her. However, if we go we are likely to leave about the end of July or the first of August. Linda could come later and join us in Maine, and we would arrange to have her met and brought up there, assuming we go. By American standards the distances are not so great.

We are also very pleased to hear the news about home and the picture of little Julie was most welcome. I don't know when I will be in London next but there is a good chance I will come in January or February and stay for a number of days.

The work in the office has been very heavy but quite interesting. I don't know whether the field of development finance is more or less frustrating than the field of monetary finance, but it takes a very firmly based sense of humor to survive!

Love to you and the family,

Yours,

Mr. Rodney Cunnell
Downswood House
63 Downs Wood
Epsom
Surrey
England

Mr. Andrew M. Kamarck

December 10, 1965

Irving S. Friedman

Balance of Payments Work

I mentioned to Mr. Cavanaugh that I thought that the three of us ought to get together to consider the balance of payments work within the Bank. I intended to have a small group within the Economics Department dealing with the balance of payments of the U.S. and other industrial countries. However, I appreciated that what little balance of payments work had been done in the past on these countries had been largely centered in the Treasurer's Department. In connection with the U.S. balance of payments effects of IBRD/IDA operations, I said that I thought that he might wish to consider not only what ought to be done but where. It was possible that some of this work might be regarded more logically as an effort already done in the Treasurer's Department. My principle concern was to ensure that the work was done somewhere and that the two Departments concerned were informed of each others work and had the benefit of it. Mr. Cavanaugh responded favorably to this suggestion and said he would be available at anytime to discuss this.

I did not set any particular day since I thought we would probably want to discuss first how far we want to go in the balance of payments and whether the Economics Department including Halley might be prepared to do.

cc: Mr. Tamagna
Mr. Halley

Mr. Michael L. Hoffman

December 10, 1965

Irving S. Friedman

Proposed Research Program for the Economics Department.

Thank you very much for your note of December 9th. I have taken the liberty of sending a copy of it to Mr. Kamarck.

I completely agree with your comments but would like to explain why they were not included in the paper outlining the proposed research program for the Economics Department. The issues which you refer to have been under active research and analysis by some people working directly with me who are not part of the Economics Department but are very much part of the "economics crowd." Actually they work quite close with the people in the Economics Department in carrying out their assignments. Thus there are a number of policy matters which are not included in the final research program for the Economics Department but which would be included in a comprehensive statement of the entire research program in the economic field being done in the Bank. This is one of the things that will emerge from the discussions we have been having in the Economic Committee of the Bank.

cc: Mr. Kamarck

Mr. Andrew M. Kamarck

December 10, 1965

Irving S. Friedman

Investment in Certain Securities of Foreign Governments by Federal Reserve Bank.

I spoke to Mr. Cavanaugh about the legislation in the U. S. Congress giving the Federal Reserve Bank authority to invest in certain securities of foreign governments. I asked whether this had been considered within the Bank.

He said that there had been discussions with the U. S. Treasury people. They had strongly advised against the Bank raising this question, referring to it as a "bomb shell." Treasury people felt that this legislation was to deal with a special problem arising out of the swap arrangements with various European Central Banks. They also seemed to feel that the European Central Banks might be hostile to the idea of the World Bank getting involved. However, since this was essentially a legal matter for the Bank, it had been referred to Mr. Broches, and he understood that further discussions were to be held.

You may wish to talk to Broches about this.

cc: Mr. Hulley
Mr. Tamagna

C
O
P
Y

OFFICE MEMORANDUM

TO: Mr. Roman L. Horne

FROM: M. M. Mendels

SUBJECT: Exchange of Information on Staff Travel

DATE: December 8, 1965

In reply to your memorandum of November 12, the Bank is prepared, beginning January 1, 1966, to send to the Fund on a reciprocal basis a forecast of Bank missions every two months covering the following six months. This bi-monthly report will contain:

- (1) all missions of an economic nature, such as missions to study the economy, to review the current economic situation, or to study a development program, and
- (2) operational or reconnaissance missions which are intended to consider possible overall Bank/IDA lending programs in the country concerned.

Project appraisal and end-use supervisory missions and routine visits of loan officers will not be included.

As in the Fund, the forecast of missions is a staff working document, which may be distributed only to Senior Officers and Department Heads of the Fund. Please let me know the number of copies needed and to whom they should be delivered.

Forty copies of the Fund documents, the semi-annual "Schedule of Official Staff Travel" and the monthly memorandum on "Current and Anticipated Travel", sent to me, will fulfill Bank/IFC needs.

If you have any questions or suggestions about this proposal, please let me know.

/s/ M. M. M.

cc: Mr. Knapp
Mr. Wilson
Mr. Friedman
Mr. Cope
Mr. Hoffman

MMM:RHH:DDF/Lmm

D'AROMA
INTERBANK
BASLE

DECEMBER 7, 1965

TELEX

SWITZERLAND

DELIGHTED ACCEPT DINNER INVITATION SUNDAY 12TH IN HONOR
OF ELIZALDES STOP WARM REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman

Office of the President

FERRAS
INTERBANK
BASLE

DECEMBER 7, 1965

TELEX

SWITZERLAND

DELIGHTED JOIN YOU FOR DINNER ON SATURDAY STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman

Office of the President

DEC 3 - 1965

Dear Mr. Hill:

Your letter of November 17 regarding "Long-term supplementary financing projects" arrived when I was out of the country, and I would like to thank you for sending us copies of the Council report.

I appreciate the confidence shown by the Council in the World Bank and its affiliated institutions. We hope to be able to send you shortly a copy of our Study on Supplementary financial measures. In this Study we did not deal with the question of what Agency should administer the suggested Scheme, since we felt that it would be more useful to concentrate first on the substantive issues.

I understand from Mr. Friedman that you have been in touch with each other and that he has recently sent you some comments. He has found most helpful his conversations with you as well as the written material he has received. I hope that you will both continue to remain in contact with each other on this and similar matters.

Yours sincerely,

(Signed) George D. Woods

George D. Woods

Mr. Walter Hill
International Chamber of Commerce
38 Cours Albert 1^{er}
Paris
France

December 6, 1965

U Thant
Secretary-General of the United Nations
United Nations
New York

My dear Secretary-General:

In response to Recommendation A-IV-18, Part A, adopted by the United Nations Conference on Trade and Development in June 1964, I have the honor to transmit herewith a Study on Supplementary Financial Measures prepared by the staff of the International Bank for Reconstruction and Development.

The Study includes the outlines of a Scheme designed to deal with the problems arising from unexpected adverse movements in the export proceeds of developing countries "which prove to be of a nature or duration which cannot be adequately dealt with by short-term balance of payments support", but require longer-term assistance to "help them to avoid disruption of their development programmes".

I believe that the Scheme forms the basis for a feasible solution to a problem of major importance and that it is worthy of the most careful consideration by all governments. In accordance with past practice in similar cases, this Study does not purport to represent the views of the Executive Directors of the Bank, or of their governments which appointed or elected them.

Sincerely yours,

George D. Woods

December 6, 1965

Dear Raul,

As promised I am enclosing a copy of our Study on Supplementary Financial Measures. Mr. Perinbam has undertaken to deliver it for me. He will also have the other requested copies for your use.

Yours sincerely,

Irving S. Friedman

Dr. Raul Prebisch
Secretary-General
United Nations Conference on Trade and
Development
United Nations
New York, N.Y.

DEC 6 - 1965

The Honorable Francis Bator
Deputy Special Assistant to the President
For National Security Affairs
The White House
Washington, D.C.

I am sending herewith a copy of our
Supplementary Finance Study as promised, together
with a copy of the Press Release. I am also
enclosing a copy of our draft research program
of the Economic Department.

I would like to say how much I enjoyed
our lunch on Friday and I hope that we will be
able to do this again.

If there are any questions on this Study
or other matters, please call.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

ISFriedman:cn
December 6, 1965

DECLASSIFIED

AUG 16 2023

WBG ARCHIVES December 6, 1965

Personal and Confidential

Mr. William Moyers
The Press Secretary to the President
The White House
Washington, D.C.

Dear Mr. Moyers:

Tom Finney has suggested that you might find it useful to have a copy of our Study on Supplementary Finance, together with the Press Release which we are making available to the press today for use on Thursday. This Study was sent to our Executive Directors for comments about three weeks ago. Their comments have now been received and the Study is being sent to U Thant and will be sent shortly to the Governors of the Bank. As you know Secretary Fowler is the U.S. Governor of the Bank. Since it is possible that you or the President may be asked questions on this in the next few days, Tom suggested that I send you a copy directly on a personal basis.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

ISFriedman:cn

UNCLASSIFIED

Mr. Kamarck

December 3, 1965

Irving S. Friedman

VAD'S [unclear]

Lunch December 17 - Mr. Irwin Schuller

As you cannot make it to the above luncheon I would appreciate it if Mr. de Vries or Mr. King could come.

Mr. A. Kamarck

December 2, 1965

Irving S. Friedman

SUPPLEMENTARY FINANCE STUDY

It was agreed with the President's Council this morning that we would translate the Supplementary Finance Study into French and Spanish. I gather we would contract the job to outsiders.

Would you please take care of this.

ISFriedman:cn
IBRD

Mr. Arthur Davis

November 30, 1965

Irving S. Friedman

Expenses for Professor Bela Balassa

Professor Balassa visited Washington on November 12, 1965 for Bank interviews at my invitation.

Would you please reimburse him for the amount set out in his statement of expenses. His address is:

Yale University
Department of Economics
Box 1972 Yale Station
New Haven, Conn. 06520

November 30, 1965

Dear Walter:

Thank you for your letter of the 17th November 1965 and the ICC report on "Long-term supplementary financing projects", which I read with considerable interest.

As you are perhaps aware, we have virtually completed our study on Supplementary financial measures in response to the resolution sponsored by U.K. and Sweden at the 1964 UNCTAD Conference in Geneva. It has gone to our Executive Director for comment. We expect to be able to transmit it to the U.N. in a few days, and I shall ensure that you get a copy of it too.

Paragraphs 7 to 16 in the ICC draft report were of special interest to me. I - and, I am sure, others who have thought about this problem - would agree with your report that the long-term solution to the export problem of primary producing countries lies in "carrying out concrete projects designed to re-establish long-term equilibrium between supply and demand whenever the international market, or a given country's exports, are disorganized by a prolonged period of disequilibrium". It is to facilitate this long-term adjustment by protecting agreed development plans and policies - designed to achieve this end - from disruption due to periodic shortfalls in 'expected' export earnings, that we propose an international mechanism to provide supplementary finance. Our scheme is in no way a substitute for this necessary long-term adjustment in a country's pattern of exports, but rather to help it come about in an orderly and realistic fashion. It is also an essential part of the Scheme that such finance would be provided if the administering Agency is satisfied as to the genuineness of the planning effort in a country as well as the likely disruptive impact of a shortfall on the development process.

I hope to be able to discuss this matter with you at greater length when we meet again either here in Washington or in Paris.

Best wishes,

Yours sincerely,

Irving S. Friedman

Mr. Walter Hill
International Chamber of Commerce
Office of the Secretary General
38, Cours Albert 1^{er}
Paris, FRANCE.

original + letter in P-1

Personal & Confidential

DECLASSIFIED

November 29, 1965

AUG 16 2023

My dear Takeshi,

WBG ARCHIVES

I was very glad to receive your letter of November 9. I have been somewhat delayed in replying because I have been simply swamped with work here. I am glad to hear that the interim arrangements have been established in such a way that the management of the Bank will have complete freedom in selection of personnel and complete freedom in projects to be financed by the Bank.

As for names for possible different positions in the new Bank let me give you some first suggestions and I will send you some more as I think of them. Of course you will know a number of these people personally. Needless to say this comes from me in a purely confidential and private basis and has nothing to do with the World Bank.

I am attaching a list of possible names, indicating their country and where I know it their current position, what kind of job I think the person could do well in a development bank. I have limited myself to people from the area and would like to give some more thought to names of non-Asians who could be helpful to the Bank since this is a much broader area from which to choose. Please don't pay any attention to the order in which names are listed - they are listed as I thought of them. I am also not listing names of people who are on the possible presidential level, such as Ebtahaj (Iran), Shoaib (Pakistan), Castillo (Philippines), etc. I have listed Raj (India) although I suspect that he would put himself in the presidential category.

I am limiting myself to people I know personally and of course have not included the names of any Japanese since you know well all the people that I know.

I am well aware that the most undiplomatic thing to do is to give a list of names! I am sure that since I am bound to be forgetting names which I should be suggesting, you will appreciate the request to please destroy this list after you have used it for whatever it is worth.

I do hope that all goes well.

With warm regards and best wishes,

Sincerely yours,

Irving S. Friedman

Mr. Takeshi Watanabe
International Financial Consultant
Suite 729, Tokyo Building 2,
3-Chome, Marunouchi, Tokyo.

CENTRALBAN
BUENOS AIRES

NOVEMBER 26, 1965

TELEX

ARGENTINA

FOR ELIZALDE

THANKS YOUR CABLE I WILL PLAN TO ATTEND BASLE MEETING
ARRIVING DECEMBER ELEVEN STOP WILL STAY AT SCHWEITZERHOFF
HOTEL STOP ASSUME YOU WILL ALSO STAY AT SCHWEITZERHOFF
SUGGEST YOU MAKE RESERVATIONS DIRECTLY OR ASK FERRAS OFFICE
TO DO SO STOP REGARDS

FRIDMAN
INTBAFRAD

Irving S. Friedman

Office of the President

Mr. Avramovic

November 26, 1965

Irving S. Friedman

My congratulations on the MIT invitation. If you would like to do it I am prepared to approve your leave for this purpose. It fits in completely with what we are trying to accomplish in economic work in the Bank.

If you decide to do it please let me know. You may wish to speak to Andy Kamarck and see what the Bank worked out for him. Of course I would want to discuss this with Mr. Woods after hearing your decision.

Mr. Kamarck

November 26, 1965

Daphne McGregor

Office Space

Mr. Isaiah Frank and Professor Tamagna have been sharing the one office in room 835. This arrangement was made originally on the understanding that both would be here on different days but of late both have been here on the same days - I understand room 832 is vacant, a small room between Messrs. Frank and Tamagna and the secretary; could this space be utilized? Thank you.

November 26, 1965

My dear Mr. Ambassador,

I would like to say how much I enjoyed the opportunity of having a chat with you the other night. I was of course pleased that you thought our Supplementary Finance Scheme was a constructive and hopeful suggestion and am looking forward to your comments thereon.

I would also like to thank you again for sending me the English resume of your "Plan" for increasing investments in developing countries. As I said the other night we are trying to look at a number of suggestions simultaneously in the hope that this would give us a more considered reaction to each one. We will be in touch with you again on this.

With warm regards,

Very truly yours,

Irving S. Friedman
The Economic Adviser to the President

His Excellency
M. Pierre Forthomme
Ambassador of Belgium
United Nations
50 Rockefeller Plaza
New York 20, N.Y.

November 26, 1965

Dear Mr. Lachmann,

Thank you for your letter of November 4 and for the attached preliminary draft of your study on suppliers' credits.

We will read this document with great interest. Mr. Nespoulous-Neuville will call you shortly to discuss with you the possible forms of cooperation between our two institutions. I am sure it will be of great benefit to both.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. K.E. Lachmann
Assistant Director
Department of Economic and Social Affairs
United Nations
New York, N.Y.

cc: Mr. Nespoulous-Neuville

November 24, 1965

Secretary's Department

Would you please order two copies from
the International Monetary Fund of SM/65/22 -
the last Article XIV consultations with the
UAR. These are required for work among some
of Mr. Friedman's group. Thank you.

Daphne McGregor
Secretary to Mr. Friedman

Mr. Diamond

November 24, 1965

Irving S. Friedman

re Irwin Schuller

Thanks for your note. Could you by any chance join us
at the lunch on December 17?

Mr. M. Lejeune

November 23, 1965

Irving S. Friedman

Secretarial Assistance

I would like to bring to your attention the problem of secretarial assistance. I am dismayed at the inability to find a regular second secretary in my office. It has now been a matter of months and it seems that the people in charge have not been able to find a suitable candidate for my consideration.

I am certain that the Administrative people concerned are conscientiously trying to find a suitable person so I can only deduce that the terms of employment for secretaries in the Bank are simply not competitive. Since we do not have a problem of nationality as we are able to employ secretaries regardless of nationality, there should be no priori reason why we should not be able to employ secretaries with the needed capabilities and experience. I am sure that you will agree that the Bank's work requires secretaries who are not only proficient in shorthand and typing but also discreet and well mannered. Such secretaries enjoy a competitive position in the labor market.

I would hope that you would be able to find a quick solution to my urgent problem.

cc: Mr. Broches
Miss Carter

November 22, 1965

Dear Sir,

In reply to your letter of November 9, 1965, requesting my release to reprint from The International Monetary Mechanism, Part I Mechanism and Operation, this is gladly done and I enclose the signed form herewith.

Incidentally, since October 1, 1964 I transferred from the Fund to the Bank.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Richard Ward
Assistant professor of finance
University of Southern California
University Park
Los Angeles, Calif. 90007

OFFICE MEMORANDUM

To: Mr. Isaiah Frank
Mr. Ravi Gulhati
Mr. Rudolf Hablutzel
Mr. Bimal Jalan
Mr. Antonio J. Macone
Mr. Gabriel E. Sciolli
Mr. Wilfried P. Thalwitz

Date: November 19, 1965.

From: Irving S. Friedman

Now that our Supplementary Finance Study has gone to the Executive Directors I would like to tell you again how much I appreciated the help of all of you in the preparation of the Study. As you all know from the viewpoint of substantive work, the early months of the Study represented my introduction to the Bank. Our ability to work together and come up with what, I believe, is something truly constructive and worthwhile meant a great deal to me in many ways. I hope that our working relationship will continue to be close.

Thank you again.

cc. Mr. Lejeune

Mr. R.A. Clarke

November 19, 1965

Irving S. Friedman

Mr. D.H. Young

I am attaching a c.v. from a young man who may have applied here before or may have been considered for the Junior Professional Program. He seems to me the kind of person who could be considered for loan work -- perhaps as an assistant to a loan officer and eventually becoming a loan officer.

In our discussions in the Economic Committee on economic activities and personnel the point was readily made that in a number of Departments economists are doing noneconomic work and that we could in effect increase our economic personnel by employing some people who could do the noneconomic work well and thus release the economists now employed on such work.

I am sending a copy of this note and Mr. Young's c.v. to Mr. Thompson because his Department was among those making this point most clearly and which seems in great need of more help.

Attachment

cc: Mr. Thompson

November 19, 1965.

My dear Douglas:

You wrote to me sometime ago to ask about the possibility of your joining us for a year or two now that Bill Tennekoon had returned.

I must apologize for taking such an inordinate length of time to reply. At the time your letter came in we were embarking upon a full-scale review of our future staffing needs and I thought it best to wait until this was completed to see what possibilities might emerge. Unfortunately, because of this a reply to your note was greatly delayed and I can but apologize.

I have since talked to Peter Cargill, Marty Rosen and others to see whether they could suggest a suitable position for you. As I am sure you must be aware, it is very difficult to fit in one of your background and seniority at a level commensurate with your experience and the responsibilities which you have already held. Frankly, the outlook at the moment is not at all promising in the Bank or IFC and it would be wrong of me to hold out any hope that the position will change materially in the near future. If it does, however, you can be sure that I shall remember you. However, would you be available for special missions abroad which we are asked to organize from time to time? Moreover, I have mentioned your name to the Fund for the central banking technical assistance program and I think they would be glad to have you show an interest in their program. You could write directly to Jan Mladek or San Lin or through me, whichever you prefer.

Again, my apologies for my long silence.

With best wishes.

Yours sincerely,

Irving S. Friedman.

Mr. Douglas Gunasekera,
Central Bank of Ceylon,
Colombo.

Mr. George D. Woods

November 18, 1965

Irving S. Friedman

Impact on the Balance of Payments of IBRD Bond Issues in the U.S.

1. The attached exercise deals with the impact of an IBRD bond issue in the United States on the U.S. balance of payments. For convenience it is assumed that there is a single issue of \$500 million in January 1966. The results would be very similar if the same amount were spread over a number of months in the same fiscal year. The exercise indicates that it is possible to so manage the use of the funds raised that the significant balance of payments impact is delayed for about three years. In the exercise this is done by assuming that the funds raised in January 1966 affect lending equally in the subsequent three fiscal years. However, the Treasurer seems to feel that there would be a need for monies for disbursements during these years which would require either a faster use of the funds raised than is herein assumed, or access to other funds, particularly in 1967 and 1968. I understand that this is essentially because of the present level of undistributed commitments and the anticipated rise in commitments as compared with available liquid resources and expected income. However, even according to the Treasurer's anticipations, the balance of payments impact of a bond issue in January 1966 would be delayed for about a year or two.

2. It may be noted that in any case the balance of payments impact in 1966 and, say, the first part of 1967 will come not from the raising of a new bond issue but from disbursements under existing loans and anticipated new loans. Indeed, if it is correct to argue that raising funds in the United States increases the amounts that may be obtained from Europe, then a bond issue in the United States early in 1966 might actually help the immediate balance of payments situation. The funds raised in the United States could immediately be neutralized from the balance of payments viewpoint by reinvestment, while the funds raised in other countries could be used to cover loan disbursements including those to U.S. suppliers.

3. The attached text and tables are based on the experience of the World Bank as obtained from the Treasurer's office. The tables cover only the period up to ten years after the date of the bond issue, including the years of maximum negative effect on the U.S. balance of payments. If they were extended to maturity, they would show a large positive effect cumulatively. (Tables prepared from time to time by the Treasurer on the past effects of the IBRD on the U.S. balance of payments have shown part of this positive effect.)

4. At present the impact of IBRD bond issues in the United States on the U.S. balance of payments is recorded essentially as follows:

(a) Since the IBRD is treated as a foreign entity, funds raised in the U.S. capital markets by an IBRD bond issue are reflected immediately in the U.S. balance of payments as an outflow of capital and shown "above the line" - i.e., among the items which add to the over-all deficit. (Retirement of the bonds is an inflow.)

(b) To the extent that the IBRD invests the funds obtained from the U.S. capital market in long-term deposits (over one year), this is reflected immediately in the U.S. balance of payments as an inflow of capital "above the line", reducing the over-all deficit.

(c) To the extent that the funds raised in U.S. capital markets are invested by the IBRD in short-term deposits or marketable U.S. public securities they are treated in two distinct ways by the U.S. Government. Using the traditional Department of Commerce "liquidity" concept, such movements of funds would be shown "below the line" i.e., as in effect helping to finance the over-all deficit in the U.S. balance of payments by increasing short-term liabilities to foreigners. However, according to the new "official settlements" concept, which is simultaneously being used by the U.S. Government, such movements of funds would be shown as "above the line", thus diminishing the size of the over-all deficit.

(d) To the extent that the funds raised in U.S. capital markets are not reinvested in the U.S. but are instead disbursed abroad, they do not appear again directly in the U.S. balance of payments; they are regarded as being transferred from one foreign entity to another. However, there might be an indirect impact, depending on what non-U.S. agency or government eventually accumulated the dollars. For example, if the dollars were eventually accumulated by a country eager to convert its net dollar accumulations into gold, this might affect the call on the U.S. for gold conversion.

(e) To the extent that disbursements abroad are made out of IBRD withdrawals from long-term deposits in the United States, this is reflected in the U.S. balance of payments as an outflow of capital. Encashing short-term assets is treated in two distinct ways, as noted under (c) above. According to the traditional concept, the use of such short-term deposits, whether for procurement in the United States or abroad, would show up in the first step as an improvement in the balance of payments because it would mean a decrease in U.S. short-term liabilities to foreign institutions. However, at a subsequent stage, if these funds are disbursed outside of the United States, they can again show up eventually as an increase in short-term liabilities. Under the new "official settlements" concept, such encashment of short-term deposits would show up immediately as an outflow of funds.

(f) Funds raised in the United States, held in long-term deposits in the United States and then disbursed in the U.S. have no net effect on the balance of payments accounts.

(g) IBRD payments of interest to U.S. holders of its bonds are recorded as an inflow in the balance of payments.

(h) Conversely, IBRD earnings on its investments in U.S. public securities and on its deposits in the U.S. are outflows.

Attachment

ISFriedman/JHulley/dm

November 19, 1965

Dear Mr. Young:

This is to acknowledge receipt of your letter of November 12. I enjoyed our conversation very much and hope we will be seeing each other again.

I have circulated the biographical sketch to others in the Bank who may be interested. Thank you for sending it to me.

With warm regards,

Yours sincerely,

Irving S. Friedman

Mr. Douglas H. Young
252 West 76 Street
New York, N.Y. 10023

Messrs. Kamarck, de Vries, Sadove, Lipkowitz

November 17, 1965

Irving S. Friedman

Meeting with Mr. William T. Phillips

With reference to my letter of November 12 (in reply to Mr. Phillips' letter) sent to you for information, I have made an appointment to see Mr. Phillips in my office at 11:30 on Friday November 19, and would be pleased to have you join the meeting.

Messrs. Aldewereld, Chadenet, Demuth, Hoffman,
Rosen, Cope, Kamarck
Irving S. Friedman

November 18, 1965

I am attaching a memorandum and a curricula vitae of someone whom you may already know. I have known Mr. Schuller for some time and, on a purely personal basis, he has expressed the views contained in the attached memorandum. I told him that this was the kind of thing of possible interest to many people in the Bank.

I have invited Mr. Schuller to have lunch with me on December 17 to discuss some of these thoughts and told him that I would invite others in the Bank who might also be interested in talking about these matters. At my suggestion Mr. Schuller has also sent a curricula vitae as I thought this might be of interest to those who would meet him.

Please let me know if you would like to join us at lunch.

Attachments

Mr. George D. Woods

November 17, 1965

Irving S. Friedman

Impact on the Balance of Payments of IBRD Bond Issue in the U.S.

1. The attached exercise deals with the impact of IBRD bond issues in the United States. For purposes of this exercise, it is assumed that there is a bond issue of \$500 million in January 1966. The assumptions made in the attached text and tables are based on the experience of the World Bank as obtained from the Treasurer's office. The tables cover only the period up to ten years after the date of the bond issue, including the years of maximum negative effect on the U.S. balance of payments. If they were extended to maturity, they would show a large positive effect cumulatively. (Tables prepared from time to time by the Treasurer on the past effects of the IBRD on the U.S. balance of payments have shown part of this positive effect.)

2. At present the impact of IBRD bond issues in the United States on the U.S. balance of payments is recorded essentially as follows:

(a) Since the IBRD is treated as a foreign entity, funds raised in the U.S. capital markets by an IBRD bond issue are reflected immediately in the U.S. balance of payments as an outflow of capital and shown "above the line" - i.e., among the items which add to the over-all deficit. (Retirement of the bonds is an inflow.)

(b) To the extent that the IBRD invests the funds obtained from the U.S. capital market in long-term deposits (over one year), this is reflected immediately in the U.S. balance of payments as an inflow of capital "above the line", reducing the over-all deficit.

(c) To the extent that the funds raised in U.S. capital markets are invested by the IBRD in short-term deposits or marketable U.S. public securities they are treated in two distinct ways by the U.S. Government. Using the traditional Department of Commerce "liquidity" concept, such movements of funds would be shown "below the line" i.e., as in effect helping to finance the over-all deficit in the U.S. balance of payments by increasing short-term liabilities to foreigners. However, according to the new "official settlements" concept, which is simultaneously being used by the U.S. Government, such movements of funds would be shown as "above the line", thus diminishing the size of the over-all deficit.

(d) To the extent that the funds raised in U.S. capital markets are not reinvested in the U.S. but are instead disbursed abroad, they do not appear again directly in the U.S. balance of payments; they are regarded as being transferred from one foreign entity to another. However, there might be an indirect impact, depending on what non-U.S. agency or government eventually accumulated the dollars. For example, if the dollars were eventually accumulated by a country eager to convert its net dollar accumulations into gold, this might affect the call on the U.S. for gold conversion.

(e) To the extent that disbursements abroad are made out of IBRD withdrawals from long-term deposits in the United States, this is reflected in the U.S. balance of payments as an outflow of capital. Encashing short-term assets is treated in two distinct ways, as noted under (c) above. According to the traditional concept, the use of such short-term deposits, whether for procurement in the United States or abroad, would show up in the first step as an improvement in the balance of payments because it would mean a decrease in U.S. short-term liabilities to foreign institutions. However, at a subsequent stage, if these funds are disbursed outside of the United States, they can again show up eventually as an increase in short-term liabilities. Under the new "official settlements" concept, such encashment of short-term deposits would show up immediately as an outflow of funds.

(f) Funds raised in the United States, held in long-term deposits in the United States and then disbursed in the U.S. have no net effect on the balance of payments accounts.

(g) IBRD payments of interest to U.S. holders of its bonds are recorded as an inflow in the balance of payments.

(h) Conversely, IBRD earnings on its investments in U.S. public securities and on its deposits in the U.S. are outflows.

3. For a complete picture of the impact of all the IBRD borrowing activities on the U.S. balance of payments, account would also have to be taken of the effects of any IBRD investment in the United States of monies raised outside of the U.S. Long-term investments of this type would show up as a net inflow of capital into the United States. Short-term investments of this type would be treated in two distinct ways, as noted under (c) above. To the extent that monies are raised abroad and spent directly abroad there is no impact on the U.S. balance of payments, except indirectly as noted under (d) above. To the extent that monies are raised abroad and are spent for procurement in the U.S. of goods and services, they show up as net earnings for goods and services in the U.S. balance of payments, thus adding to the current account surplus.

N.B. Sales of participations are not included in this note.

Attachment

ISFriedman/JHalley/dm

Mr. George D. Woods

November 17, 1965.

Irving S. Friedman

U.S. Balance of Payments with LDCs

Please find attached a number of tables on the U.S. balance of payments with the LDCs which Mr. Kochav has worked out on the basis of U.S. official statistics.

1. According to the customary Department of Commerce definition, the U.S. has had an annual deficit with the LDCs of some \$800 million in 1963, 1964 and the first half of 1965 as reflected in changes in monetary reserves and liquid liabilities of the United States (Table I, Line 22). There are relatively large "errors and omissions" figures which may only reflect statistical inaccuracies; however, they give reason to believe that the actual deficits were larger, but were partly financed by foreign exchange received by the LDCs from other countries and used in the U.S. The LDCs included in this calculation are the IDA Part II countries, except for the European ones, such as Greece, Turkey and Yugoslavia.
2. The major change in U.S. balance of payments with the LDCs in the last three years has been the growth of imports from these countries and an increase in U.S. private investments in some of the LDCs.
3. The deficit of the U.S. with the LDCs has resulted in an accumulation of short-term dollar holdings by the latter, as shown in Table II, Line 25. The U.S. deficit with the LDCs has not led to any reduction of U.S. gold or other monetary reserves, as shown in Table II, Line 24. The significance of a U.S. balance of payments deficit with LDCs is thus quite different from the deficit with industrial countries in its impact on U.S. gold holdings. Not only have the LDCs not converted dollars into gold, but may well choose not to do so in the future (with the possible exception of some of the oil exporting countries). Moreover, countries which are likely to use their reserves mostly for purchases in Europe, such as the African and Middle Eastern countries, have accumulated little reserves. The major countries which have accumulated dollar reserves - Mexico, Thailand and Taiwan - are likely to spend most of their increase in the U.S.
4. The changes in dollar and gold reserves of several LDCs are shown in Table IV. A third of the increase in dollar and gold reserves by the LDCs in 1963 and 1964 has been accumulated by two oil-exporting countries - Venezuela (\$328 million) and Saudi-Arabia (\$169 million). Three other countries which have received limited aid in the last few years also increased rapidly their dollar reserves - Mexico (\$274 million), Thailand (\$201 million) and Taiwan (\$153 million). Excluding those five countries - all the other LDCs, which are the main aid recipients, increased their dollar holdings by some \$230 million in each of the years 1964 and 1965. These amounts have been distributed among a large number of countries.

TABLE I - U.S. Balance of Payments with Less Developed Countries, 1963-June 1965

(in millions of dollars)

Line		IDC's		
		1963	1964	I H 1965
1	Exports of Goods & Services ^{1/}	11,878	13,294	6,672
2	Merchandise	7,506	8,447	4,084
3	Transportation	690	735	747
4	Travel	411	442	216
5	Other Services	717	784	442
6	Income on investments	2,554	2,886	1,583
7	Imports of Goods and Services	8,514	9,079	4,732
8	Merchandise	6,255	6,679	3,465
9	Transportation	362	387	193
10	Travel	789	831	440
11	Military Expenditures	653	671	370
12	Other	455	511	264
13=1-7	Balance on Goods and Services	3,364	4,215	1,940
14	Remittances & Pensions	-444	-424	-230
15	U.S. Government Grants and Capital	-3,321	-3,107	-1,687
16	U.S. Private Capital	-737	-1,806	-713
17	Direct investments	-484	-522	-648
18	Other long-term	-56	-481	-132
19	Short-term	-197	-803	87
20	Foreign investments in the U.S.	99	211	64
21=13+14+15+ 16+20	Total Transactions with the U.S.	-1,039	-911	-627
22	Reduction in monetary reserve assets and increase in liquid liabilities	792	772	394
23=21-22	Errors & omissions and transfer of funds between foreign areas [receipts by foreign areas (-)]	247	139	232

^{1/} Excludes goods & services transferred under military grants.

Source: Survey of Current Business, June 1965 & September 1965.

TABLE II - Changes in U.S. Reserves Related to Balance of Payments with IDC's
(in millions of dollars)

Line		1963	IDC's 1964	I H 1965
22	Reduction in U.S. Monetary Reserve Assets and Increase in Liquid Liabilities	792	772	394
24	Reduction in U.S. Monetary Reserves	- 8	-54	-25
25=22-24	Increase in short-term official and banking liabilities and in foreign holdings of marketable U.S. government bonds and notes <u>[decrease (-)]</u>	800	826	419
Memorandum Items				
I	Increase in reported total gold reserves and liquid dollar holdings	810	823	413
II	Through estimated net receipts or payments to the U.S. ^{1/}	1,039	911	627
III=I-II	Through other transactions	-229	-88	-214

^{1/} Equals (with reverse sign) Total Transactions with the U.S. (Table I, Line 21)

Source: Survey of Current Business, June 1965 & September 1965.

TABLE III
 Estimated Dollar outflows to Foreign Countries and
 International Institutions through Government Grants
 and Capital Operations

(in millions of U.S. \$)

<u>Line</u>		<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>I H</u> <u>1965</u>
1	Government grants ^{1/} and capital outflows	4,054	4,293	4,551	4,260	2,137
2	Less: Estimated transactions involving no direct dollar outflows from the U.S.	2,915	3,220	3,717	3,558	1,741
3	Equals: Estimated dollar payments to foreign countries and international institutions through government grants and capital operations	1,139	1,073	834	702	396

^{1/} Excluding Military Grants.

Source: Survey of Current Business, June 1964 & September 1965.

TABLE IV
Changes in Gold and Short-term Dollar Holdings^{1/} of IDC's
(in millions of U.S. \$)

	<u>1963</u>	<u>1964</u>	<u>I H</u> <u>1965</u>
<u>Total</u>	<u>817</u>	<u>735</u>	<u>395</u>
<u>Latin America</u>	<u>652</u>	<u>318</u>	<u>79</u>
Venezuela	185	143	-38
Mexico	178	96	-49
Brazil	-101	21	52
Argentina	81	-91	26
Other	409	245	39
<u>Asia^{2/}</u>	<u>242</u>	<u>465</u>	<u>228</u>
Saudi Arabia	33	136	91 ^{4/}
Thailand	125	76	30
Taiwan	74	79	12
India	18	8	47
Pakistan	2	6	2
Other	-10	165	46
<u>Africa^{3/}</u>	<u>-77</u>	<u>-38</u>	<u>88</u>

^{1/} Including Deposits and U.S. Treasury bills and certificates.

^{2/} Excluding Japan

^{3/} Excluding South Africa

^{4/} First four months; no later data available

Source: Federal Reserve Bulletin, January & October 1965.

CENTRALBAN
BUENOS AIRES

NOVEMBER 15, 1965

TELEX

ARGENTINA

MR. FELIX ELIZALDE

IN RESPONSE YOUR CABLE NOVEMBER 12 I CONTACTED GABRIEL FERRAS
GENERAL MANAGER OF BIS IN BASLE STOP FERRAS CONFIRMS YOUR ATTENDANCE
AT DECEMBER OR JANUARY MEETING OF BIS WOULD BE MOST WELCOME STOP HE
EXPRESSED PREFERANCE FOR JANUARY BECAUSE OF OTHER COMMITMENTS IN
DECEMBER BUT STRESSED THAT YOU WOULD BE WELCOME IN DECEMBER IF
JANUARY NOT FEASIBLE TO YOU STOP I HAD BEEN PLANNING ATTEND DECEMBER
BUT WILL POSTPONE TRIP UNTIL JANUARY IF YOU DO SAME STOP JANUARY
MEETING IS ON NINTH AND TENTH STOP IF YOU WISH TO ATTEND YOU SHOULD
CONTACT FERRAS SO INDICATING STOP HE WOULD THEN SEND YOU OFFICIAL
INVITATION STOP PLEASE INFORM ME WHETHER YOU PLAN TO GO DECEMBER OR
JANUARY SO I CAN ADJUST MY PLANS TO YOURS STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

Messrs. Alter, Chadenet, Kamarck

November 10, 1965

Irving S. Friedman

Invitation to participate in meeting on Municipal Financing in
Latin America

I would appreciate having your reaction to the attached request. Incidentally, the discussion with me referred to in this letter was of a most superficial and brief character. I think that the entire exchange of views on this did not last a minute. However, I see no objection and some merit in our participation if we have the appropriate person to send who can be spared.

Attachment:

Letter from Alfonso Rochac, Technical Manager
Inter-American Development Bank
and Agenda.

NOV 15 1965

Dear Mr. Rochac,

This is in reply to your letter of
November 2, 1965.

Thank you for your invitation to the
IBRD to participate in the forthcoming
meeting on Municipal Financing in Latin
America and to submit a paper on our
experience in the municipal projects
field. I am bringing this matter to the
attention of those in the Bank who are
directly concerned with such matters and
you will undoubtedly be hearing from them
in the near future.

Yours sincerely,

(Signed) George D. Woods

George D. Woods

Mr. Alfonso Rochac
Technical Manager
Inter-American Development Bank
Washington D.C. 20577

cc: Messrs. Alter
Chadenet
Kamarck

ISFriedman:dm
11/10/65

November 12, 1965

Dear Bill:

We will be glad to see you on the 18th or 19th, or both. I am mentioning your coming to Andy Kamarck and Bob de Vries, who are Director and Deputy Director of the Economics Department, and to Bob Sadove and Sam Lipkowitz who are the Economic Advisers in the Projects Department.

I of course will also be glad to chat with you about this. If you could let me know a little before your arrival more about exactly what you wish to discuss, I will try to arrange a schedule of appointments if you so desire.

Looking forward to seeing you soon,

Sincerely,

Irving S. Friedman

Mr. William T. Phillips
Box 162 Sugar Loaf Shores
Key West
Florida

cc: Mr. Kamarck
Mr. de Vries
Mr. Sadove
Mr. Lipkowitz

Mr. Federico Consolo

November 10, 1965

Irving S. Friedman

UNCTAD - Committee on Finance and Invisibles

This is in reply to your memorandum of November 5. I am planning to have Mr. N.A. Sarma attend the first session of the UNCTAD Committee on Finance and Invisibles and have so informed him. I understand that Mrs. Boskey will be there for some time when the Horowitz Proposal is expected to be discussed.

If there is any attendance from the Paris Office I think they should be there more in an advisory capacity rather than as spokesmen for the Bank on UNCTAD matters, as they have not had the benefit of being in the home office during the last year.

I have given some thought as to whether we would want Bob de Vries or someone else to attend for Item 9. I have raised this with Mr. Kamarck and if we have further views on this here, I will let you know.

cc: Mr. Demuth
Mr. Kamarck

November 5, 1965

Dear Mr. Tazi,

Thanks very much for the two
copies of the Moroccan Three-Year
Plan 1965-1967. I look forward to
reading it with interest.

Irving S. Friedman

November 4, 1965

Dear Eli,

Thanks for your letter of October 27
and the enclosed resume on Mr. Mark Hoffman.

He does indeed look like a promising
candidate. As we have not yet heard from
him perhaps he could first of all fill
out the enclosed application form and we
can at least start on the preliminaries
before he comes to see me.

Best regards,

Sincerely,

Irving S. Friedman

Dr. Eli Shapiro
Harvard University
Graduate School of Business Administration
Boston
Massachusetts 02163

Mr. George D. Woods

November 4, 1965

Irving S. Friedman

Study on Supplementary Financial Measures

I am attaching the latest revision of the Study on Supplementary Financial Measures. As you will note I have made certain important modifications as a result of the comments made by yourself and various members of the Council. Of principle importance are:

1. Elimination of any reference to the World Bank Group or IDA as a possible administrator of the Scheme.
2. Elimination of the attempt to reconcile the objectives and techniques of the Scheme with the project approach.
3. The elimination of ways and means of raising funds as either part of the Scheme or in the background discussion in the Study.
4. Clarification of what is meant by the idea that the Scheme would be the lender of last resort.
5. A completely revised Introduction which hopefully gives a proper setting for the Study.

I believe the fourth point will help in avoiding the misunderstanding that the Scheme was designed to finance 100 per cent of the unexpected export shortfall leading to counter-suggestions that an alternative might be that the Scheme would finance a "proportion" of the shortfall.

I am circulating this document only to members of the President's Council, and two copies to the IMF.

Attachment

cc: Members of the President's Council

DECLASSIFIED

Personal

AUG 16 2023

November 4, 1965

WBG ARCHIVES

Dear Helmut,

I appreciate very much your thoughtful letter of October 18. I have read and reread it most carefully. During the last couple of weeks I have been busy preparing what I hope will be the final draft of the Supplementary Finance Scheme and have kept your comments very much in mind. I am not at all sure that we have met all the points which you have made but I believe that we both start with the same assumption that the essence of the Scheme is to connect the idea of supplementary finance with the concept of performance. I know that this will throw a great deal of responsibility on the agency. My own conviction is that unless such responsibilities are assumed and executed successfully the future of development finance becomes very uncertain.

The latest version contains some important changes. Among the most important are: (1) Elimination of any reference to the World Bank Group or IDA as a possible administrator of the Scheme. (2) Elimination of the attempt to reconcile the objectives and techniques of the Scheme with the project approach. (3) The elimination of ways and means of raising funds as either part of the Scheme or in the background discussion in the Study. (4) Clarification of what is meant by the idea that the Scheme would be the lender of last resort. (5) A completely revised Introduction which hopefully gives a proper setting for the Study.

I would also like to say how much I appreciate your keeping our exchange of views as a purely personal and confidential matter -- I am continuing to do so at this end. As with some other Executive Directors, I have given the German Executive Director an oral summary of the Scheme and kept him informed where we are in its preparation. However, the Scheme has not been circulated to Executive Directors but I hope that the new revised version will go out shortly.

Thank you again,

Sincerely yours,

Irving S. Friedman

MR Koinzer
Economics Ministry
Department VI
Bonn
Duisdorf, Germany

Mr. Lars Lind

November 3, 1965

Irving S. Friedman

Mr. Woods's speech draft

I would appreciate having a few more days on the Pilgrim Society speech. Mr. Woods has also asked me to go over it and felt that I could take a little more time with it.

November 3, 1965

Dear Bob,

Thank you very much for sending me one of the new quarters. It was both kind and thoughtful of you to do so.

May I add my congratulations to others for your finding a solution to this thorny problem.

With warm regards,

Yours,

Irving S. Friedman

Mr. Robert A. Wallace
Assistant Secretary of the Treasury
Washington 25, D.C.

CONFIRMATION

Mr. Owen

October 3, 1965

Irving S. Friedman

Forthcoming Economic Missions

Would you please prepare quickly for me a list of forthcoming economic missions, looking ahead as far as the departments concerned are able to tell you. I would like to know to the extent possible the kind of commitment we have to do the mission - timing, scope, possible size and designated personnel, or whether this has been done.

You will probably find it desirable to consult with the economic advisers of the Area Departments and the Economics Department to prepare this list.

Mr. Nespoulous-Neuville

November 3, 1965

Irving S. Friedman

Working Group on Suppliers' Credits

Your outline looks very interesting. May I suggest, however, that in addition to the information requested on individual transactions you might also wish to have some striking examples of "good" suppliers' credits.

Mr. El Emary

November 3, 1965

Irving S. Friedman

Letter to Chief Festus

If the letter of November 2 has not already been sent out may I suggest the deletion of the last sentence in the second paragraph. I believe that this is the kind of thing that is better suggested orally by the mission rather than coming from the President of the Bank.

I gather that we will have facilities in London but that these will not be ready until January. Is this right?

Mr. Merchant

November 3, 1965

Irving S. Friedman

Attached are some recent memoranda which I have sent to Mr. Woods on U.S. balance of payments and related matters. As he has probably told you I have not circulated these memoranda to anyone else.

I am looking forward to our conversation on Friday and hope you find these memoranda useful.

Attachments

INTRODUCTION

1. The United Nations Conference on Trade and Development (UNCTAD), which met in Geneva in March-June, 1964, passed a resolution requesting the International Bank for Reconstruction and Development (IBRD) to study the feasibility of a new scheme which "should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support. Its purpose should be to provide longer term assistance to developing countries which would help them to avoid disruption of their development programs". The resolution, originally sponsored by the United Kingdom and Sweden, also requested the IBRD to work out such a scheme, if appropriate.^{a/} The adoption of this resolution was regarded as a major step towards meeting a problem which was believed to be hurting the development efforts of the poorer countries of the world but for which no international mechanism of assistance existed.
2. The present Study has been carried out in the spirit of the UNCTAD resolution: once it was verified that the problem was indeed real and important, the Study was directed towards trying to find the best feasible way of solving it. Essentially, therefore, the Scheme presented in this Study is designed to be a technically feasible way of helping developing countries overcome the problem of unexpected shortfalls in their export earnings that result in disruption of sound development programs.
3. For many years the world has recognized that developing countries, whose exports consist overwhelmingly of primary products, are peculiarly vulnerable to two hazards: one is the sluggish growth over the longer-term in foreign exchange earnings; the other is the short-term instability of export markets.
4. Over the course of recent years, various international mechanisms have been set up to try to assist the developing countries to meet these difficulties. The longer-run problem of slow growth of export demand has been viewed fundamentally as that of a need to achieve diversification of production and exports. This need is a major consideration in the programming and expansion of development assistance and also underlies the pressure to secure better access to markets for the developing countries. Continued progress in these fields is obviously of great importance to the developing countries. The second problem -- short-run instability -- has led to demands for commodity agreements and various other stabilization devices. Since short-run fluctuations can be viewed basically as requiring more liberal access to international liquidity, a new compensatory drawing facility was established by the IMF, and the possibility of liberalizing that facility is currently under study.
5. The problem to which the UNCTAD resolution on supplementary finance addresses itself is related to, but different from the two foregoing ones. It is that of preventing the disruption of sound development programs or policies by

^{a/} The text of the UNCTAD resolution on Supplementary Financial Measures is reproduced as Annex I, page _____. All references to this resolution apply only to Part A unless otherwise indicated.

unexpected shortfalls in export earnings which are "of a nature or duration which cannot adequately be dealt with by short-term balance of payments support". Or put in other terms, it is the need to provide countries, already short of foreign exchange because of their efforts to force the pace of development, with a ready source of long-term assistance to enable them to maintain internationally-approved development programs in the face of unforeseen adverse export movements that are beyond their control and beyond their ability to offset from reserves or to finance on a short-term repayable basis.

6. The Study concludes that unexpected shortfalls pose a serious problem distinct both from the short-term ups and downs in export proceeds and from the longer-term resource gap to which traditional development finance is directed. Moreover, the existing international financial machinery does not now include a special mechanism designed to meet this problem. Because of this gap there is the chronic danger that economic growth will be repeatedly interfered with and held back by causes beyond the control of the developing country.

7. Although the problem to which the Scheme is directed is a major one, the resources required to meet it are modest as compared to total estimated needs for development finance. A recent IBRD study of the capital requirements of developing countries estimated that an additional \$3 - \$4 billion per year of development assistance on the average could be effectively used for productive investment in the next five years. The Scheme set forth in this Study to meet the problem of unexpected export shortfalls conservatively projects a need of an additional \$300 - \$400 million per year. Both of these estimates were made by staff economists of the Bank without any effort to inject political judgments as to the readiness of the international community to contribute the necessary funds. They are based on actual experience in recent years and assume major efforts on the part of the developing countries themselves to cope with their problems. (The nature of such efforts is explained in the Study.)

8. The Scheme set forth in the Study is predicated on the assumption that it would be supplementary to and not a substitute for what have by now become traditional forms of aid. This reflects the clear distinction between these two forms of finance. Regular development finance is supposed to provide the additional foreign exchange needed for development over and beyond that expected from exports, invisible earnings and inflows of private capital. Decisions on such aid should take full account of needs arising from expected declines in export earnings where they are a part of the developing country's prospects. Supplementary finance, on the other hand, should be designed to provide funds when exports, usually the most important single source of foreign exchange, fail to provide the expected amount of foreign exchange. The flow of regular development finance is a major determinant of the volume of investment in the public and private sectors which a country can reasonably undertake. It helps a country achieve its growth objectives if the country perseveres in its development efforts. The purpose of supplementary finance, as set forth in the Scheme, is to help assure that the achievement of these objectives will not be frustrated because foreign exchange earnings from exports do not materialize in the amounts envisaged at the time the investment and aid decisions were made. As lender of last resort, moreover, supplementary finance will be extended only if other sources of funds which may be available in such circumstances are insufficient even though the country takes feasible adjustment measures compatible with the maintenance of the development program.

9. The Scheme would provide developing countries with assurance that, if policies with which the administering Agency agreed were conscientiously carried out, development goals would not have to be scaled down because of a shortfall of export receipts from reasonable expectations. In order to avail itself of this insurance facility, however, a country would have to enter into an initial understanding with the administering Agency both as to reasonable export expectations and as to certain key aspects of its development program and policies. The precise nature and degree of detail of such an understanding would vary considerably as among countries. Continuing contact would be maintained, moreover, between the administering Agency and the country throughout the plan period in order to provide the basis for an assessment of the extent to which the agreed criteria of performance are currently being fulfilled or need adjustment in the light of changing circumstances. These activities would essentially be of the same character as those now becoming increasingly widespread as part of the process of providing development finance, but with more emphasis on mutual responsibility for good performance and for assuring that growth will not be retarded because of developments beyond the control of the recipient country. From the point of view of the country, therefore, a financial underwriting will have been obtained for one of the major risks threatening its development program. From the point of view of the international community, an important step forward will have been taken in rationalizing and systematizing the aid-giving process by providing an additional important reason for having a framework of comprehensive analysis and continuing review of a country's development effort and making it possible for other sources and types of aid to be fitted into the over-all program.
10. As set forth in the Study, the Scheme is designed to fit into the already existing structure of aid mechanisms - in part, through providing assistance only for any residual justified need after other sources have been tapped and, in part, through close cooperation with existing coordination machinery such as Consortia and Consultative groups. Itself a financial device, the Scheme is also designed to be compatible with inter-governmental commodity agreements. An effective commodity agreement, which stabilizes prices and thus diminishes the likelihood of unexpected export shortfalls may help the Scheme to achieve its goals at a lower cost to its resources. The Study does not, however, analyze and make recommendations on international commodity agreements as such.
11. According to the UNCTAD resolution on supplementary finance, the resources for the Scheme should be administered under the International Development Association. The Study presented herein does not, however, address itself to the question of the administering Agency (hereafter referred to as the Agency). As indicated throughout the Study, however, the closest cooperation would be required with the IERD and IMF regardless of the nature of the Agency carrying out the Scheme.
12. The Scheme proposed in this Study is, of course, not intended to solve all the problems of the poorer countries of the world. But if successful, it should accomplish two important purposes. Countries would have assurance that their development efforts would not be frustrated by unexpected export shortfalls due to forces beyond their control. And a new relationship will have been established between individual developing countries

and the international community through which the incentives and prospects for effective internal development performance will be greatly strengthened.

13. If the scheme suggested in this Study achieves international acceptance, the next step will be to consider in detail ways and means of providing the necessary financing and more precisely how such a scheme should be administered.

October 29, 1965

Dear Professor Belassa,

Thank you for your letter of October 27. I am happy to know that you are interested in renewing our spring conversations, and on a more concrete basis.

Would an appointment on Friday, November 5 at 11 a.m. be suitable? If not please let me know and we can arrange a mutually convenient time.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Professor Bela Balassa
Associate Professor of Economics
Yale University
New Haven
Connecticut

cc: Mr. Eschenberg

Mr. George D. Woods

October 27, 1965

Irving S. Friedman

Development Finance and Balance of Payments Priorities

Apresos our discussion the other day about the priority for development finance in managing the U.S. balance of payments, I would like to recall some of the basic assumptions on which we have been operating. I believe they indicate why development finance deserves a very high priority from the U.S. viewpoint.

1. Development finance is the other side of the coin of security expenditures. The recipients of development finance of the countries must both make economic progress and have the hope for further progress if we are to avoid repeated profound political crises and the outbreak of hostilities. Other measures can help achieve this but none are a substitute for focusing attention of countries on the achievement of economic objectives and helping them to achieve these objectives. It is obvious experience that political crises, particularly those leading to actual or threatened armed hostilities, are much more costly for the United States -- whether in terms of the budget or the balance of payments -- than assistance for development. It would be interesting to know what the impact would have been on the U.S. military expenditures domestically and abroad if the development program were given up or greatly reduced.
2. The United States has a great tradition of humanitarian concern with the plight of people whether in the U.S. or elsewhere. There is simply no other country in which benevolent activities have such widespread financial support from the community, much beyond the differences in levels of income. I don't think the American people could live with themselves and not only enjoy their own affluence but even tackle vigorously the remaining pockets of poverty, if they did not feel they were helping all other human beings along the same lines even though in much smaller magnitudes. No other country has the huge volume of savings which are the prerequisite for domestic and foreign investment whether private or public. Thus, the United States has the economic basis for foreign assistance, but this is not the reason why it is done. Europe could do much more, but taken as a group, it doesn't have the same political and moral motives and drives.
3. Everyone speaks of the widespread sense of frustration and even hopelessness which becomes the basis for ideological ferment and open hostility to the free world. We have not yet found a better or more hopeful way than the painful process of economic development for meeting these deep-rooted and urgent problems. In another world and at another time it may well have been true that economic development would have taken place without the phenomenon of foreign assistance from other governments. Indeed, it may well be argued that such development would be more balanced and more securely built. However, in the present day world this is simply not a choice open to the U.S. to advocate. Our very economic success and affluence, as well as adherence to our social and political principles, makes this impossible. However discouraged or frustrated we may feel at times and, however the temptation to say let's stop it all, there seems to be no choice but to continue foreign assistance; even talk of reduction is probably a waste of time.

October 27, 1965

From the viewpoint of making it acceptable to the industrial or donor countries such as the United States, there seems to be no choice except to take drastic measures to re-establish confidence in the process of foreign assistance and to the elimination of those evils and disappointments which have eroded public confidence and support to the point where many regard such support as virtually nonexistent. Fortunately, the international agencies, particularly the World Bank Group, seem thus far not to have fallen completely under the same cloud of public distrust and cynicism and to offer some hope as a rallying point for gaining the necessary public support.

4. A partial alternative to foreign aid would be free access to the markets of the industrial countries. From an economic viewpoint this could easily be argued as highly desirable. Fortunately an expanding world economy has meant that those developing countries which have done well have, by and large, managed to dispose of their exports somewhere. However, from the strictly U.S. point of view it does not seem reasonable to propound vigorously the theme that development financial expenditures can be reduced substantially by allowing countries to export more to the industrial countries unless these countries are prepared to see a major change in their trade policies. On the other hand it seems completely unreal to expect any drastic change in the import policies of the Western European countries in the foreseeable future. In the United States we have our textile industry problem.

ISFriedman:dm
10/27/65

Mr. George D. Woods

October 27th, 1965.

Irving S. Friedman

Estimated Effect on U.S. Balance of Payments of Assumed Increases
in Contributions to IDA.

This paper tries to estimate the impact of the U.S. balance of payments of the following assumptions:

- (a) the new replenishment of IDA by Part I countries will be agreed in the amount of \$450 million per year, of which about 40% would come from the United States. The installments paid to IDA of this replenishment are presumed to begin after the installments are finished on the outstanding replenishment. The last installment on the outstanding replenishment is assumed to be November 1967 and thus the first installment on the new assumed replenishment would be in November 1968.
- (b) in addition to its contribution as a Part I country the United States would either lend or contribute an additional \$500 million per year; the installments on this amount are also assumed to begin in 1968 coinciding with the installments on (a) above.
- (c) it is assumed that the IBRD will continue to transfer \$75 million dollars per year to IDA during this period.
- (d) it is also assumed that legislative approval for this new replenishment plus the additional U.S. contribution is consummated during the next twelve months. By fiscal 1967 the managers of IDA would be assuming that after the first replenishment is completed the new higher levels of funds would be available.

It is to be emphasized that these figures are by way of examples and not to be taken as predictions of the actual size of replenishment.

On the assumptions set forth above, the large increase in contributions by the U.S. to IDA, both as a member of the Part I group plus the special contribution or loan, could not have a sizable effect on the U.S. balance of payments before fiscal 1969. Even this is based on the assumption that in fiscal years 1967 and 1968 IDA would be committing credits much above current contributions in anticipation of the funds which would begin to become available in fiscal 1969. The lag reflects the needs of the administrative pipeline from effective credit commitments to actual disbursement; it is the time involved in competitive bidding, manufacture or preparation of items, delivery and local construction for projects; it is currently equal on average to a little over two years. Comparison with IBRD experience suggests that this length of time is normal for project lending; (AID experience, which includes program aid, averages roughly six months less).

A U.S. decision to make a major increase in the level of its contribution to IDA could become effective in fiscal 1967. Two years later a rising level of disbursements should begin to affect the U.S. balance of payments, along

lines suggested in the notes and tables in the attached memorandum.

The attached notes and tables, prepared at my request by Mr. Hulley, sets forth the bases for the conclusions given above.

25 October, 1965.

Dear Mr. Ostrer:

Mr. Woods has kindly sent to me the extract from "Modern Money and Unemployment", I am looking forward to reading it and am sure that I will find it stimulating and worthwhile.

Yours sincerely,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Mr. Isidore Ostrer,
27 Princes Gate,
London, S.W.7.

Copy to Mr. Woods office for record purposes.

Mr. George D. Woods

October 28, 1965

Irving S. Friedman

U.S. Official Aid

I am attaching hereto the memorandum on the nature of U.S. official aid.

Your attention is particularly drawn to the paragraph before the last on page 1, which states the conclusion that U.S. aid with a clearly developmental motivation can be said to amount to about \$1.5 billion a year.

Attachment

Mr. Jalan

October 27, 1965

Irving S. Friedman

Gold

Thanks for your note on gold. Would you please check through the British press -- I suggest the Financial Times or London Economist -- and find out what happened to the price of gold during that period of time when gold exports were suspended.

U.S. Balance of Payments in Perspective

1. The problem of the U.S. deficit is essentially whether monetary authorities abroad are willing to hold further accumulation of dollars in their reserves or for one reason or another wish to convert such holdings into gold. The problem arises because the U.S. is the only currency in the world which has that kind of international use and acceptability that is regarded by all countries as the international currency in which to hold reserves in addition to gold. Even gold itself gets much of its attractiveness because of the convertibility of gold into dollars at a fixed price. The fact that the U.S. dollar is held more and more unwillingly and in that sense is losing its status as reserve currency does not arise from the weakness of the U.S. economy but rather from the concern with how the U.S. balance of payments will be managed in the future and from the belief in certain quarters of the great likelihood, if not inevitability, of a change in the \$35 price for gold.

2. Thus the U.S. balance of payments problem is a reflection of the use of the dollar as a reserve currency and this in turn is a reflection of the great strength of the U.S. economy. Therefore any comparison between the U.S. balance of payments "deficit" and any other balance of payments "deficit" is misleading. Given the present atmosphere of widespread concern and crises it may well be that the complete or near elimination of the U.S. balance of payments deficit is urgent. However, the acceptance of the analysis that the problem fundamentally arises because of the basic strength of the U.S. economy rather than its weakness may have an important effect on the way in which the balance of payments problem is tackled. For one thing, more attention might be given to measures which would assure the world that there will be no change in the price of gold. Moreover, care might well be taken that any important cuts in foreign exchange expenditures be made only in such categories which have an immediate effect on the balance of payments deficit, which do not affect the achievement of the basic national objectives of the United States and whose impact on the functioning of the world economy is relatively small.

3. The simple fact is that the U.S. balance on goods and services has been in considerable surplus, reflecting the competitive strength of the U.S. productive system. In 1962, surplus on merchandise (exports minus imports) was nearly \$4.5 billion, in 1963 over \$5 billion, and in 1964 more than \$6.5 billion. Between 1951 and the present, the value of American exports (including invisibles but omitting the dispatch of military equipment) and imports (including invisibles but omitting military expenditures abroad) rose together roughly in line. During the period 1951 to 1958, the U.S. surplus on current account, thus measured, varied between 20 and 25 per cent of the value of her exports of goods and services. During the period 1959-64, when the concern over U.S. payments deficit has been the greatest, these ratios are still approximately the same.

4. Thus, the items determined by the working of the U.S. economy in the production of commodities have been on the credit of the balance of payments. On the debit side are items such as military expenditure, U.S. Government grants and capital flows to other countries, private direct investment, private short term funds and tourist spending. These debit items reflect governmental decisions pertaining to achievement of national objectives abroad, private entrepreneurial decisions pertaining to economic opportunities abroad, and private individual decisions pertaining to tourism. None of these items can be said to be of a nature calling for changes in domestic economic policy, although further governmental restraints on expenditure, e.g. tourism, are likely if balancing the U.S. external accounts is a must.

5. A key currency is used by other countries as (a) unit of account in

international transactions (b) a means to balance international payments, and (c) a reserve of international liquidity. The U.S. dollar today is the pre-dominant key currency and serves all three functions. The choice of the dollar as the international unit of account of the free world was the result of the dominant position of the United States after World War II. The return of the free world to a multilateral payments system was aided by financial outflows from the U.S. not only for reconstruction and development, but also for the building up of adequate reserves of international liquidity. Thus, the U.S. became the key currency country.

6. The members of a key currency system, such as the present one, can acquire dollar balances by two methods - either they can borrow from the U.S. or they can develop an international payments surplus to earn it. When they acquire dollars through payments surpluses they can dispose of them in many ways; that they have chosen to hold dollars in addition to gold reflects their basic confidence in the present and past of the United States. They may be uncertain as to the future value of these dollars, in terms of gold, but so far have had no doubts that these could be used to finance any balance of payments deficit. The continuation of the U.S. balance of payments deficit did not hold a real danger as long as it manifested itself in an increase in dollar holdings by foreigners. As foreigners have become more generally unwilling to hold dollars and, instead, demand gold, the situation has become more serious for the U.S. since its gold supply is small in relation to dollar assets held abroad.

7. The central question is how to stop the erosion of confidence in the dollar and, if possible, to strengthen it. A realistic approach would seem to be to hammer away at the impossibility of changing the price of gold (e.g. some combined Executive-Congressional action) coupled with repeated assertions of the great strength of the U.S. economy, while making clear the determination "to avoid" inflation or widespread unemployment - the only basic threats to the soundness of the dollar. Another measure would be to give wide publicity to the underlying strength of the balance of payments. It means less talk of the significance of "balance" and more talk of the significance of the performance of the U.S. economy. It means converting dollar balances held by friendly monetary authorities into gold if they so wish. It means giving confidence to dollar holders abroad that the gold holders are being stupid. All in all it means being positive, rather than negative, in approaching the present serious problem of eroding confidence in the dollar.

October 25, 1965

Dear Mr. Hayes,

This is in reply to your letter of October 12, 1965. I am glad to learn that we are cooperating so closely in the work being done on projection model analytical techniques. As you know I have done what I can to encourage both effective Bank participation in these discussions and to strengthen this kind of work in the Bank itself. However, I gather that either Andy Kamarck or Bob de Vries is writing to you on this and they will, of course, be speaking for all of us.

I read with great interest your postscript on the basis of our \$3 to \$4 billion estimate. This estimate was made on the basis of a great deal of Bank experience and work and, I believe, will stand careful scrutiny. As you may know, for many months we have told the technicians of donor countries concerned that we would be happy to discuss with them in detail how we arrived at these estimates. Unfortunately, much of this estimate is based on confidential material and therefore we are unable to consider publication, although a number of my academic friends have urged me to write an academic article on the methodology used. May I extend the same invitation to you, if it has not already been done, to come and discuss with those who actually did the desk work for these estimates, both their methodology and their estimates. I am sure that we are all agreed on the desirability of further strengthening the basis for future estimates.

With warm regards,

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Mr. J.P. Hayes
Head, Economic Development Division
Organisation for Economic Co-operation and Development
2, rue Andre-Pascal
Paris XVI^e, France

cc: Mr. de Vries

Mr. de Vries

October 26, 1965

Irving S. Friedman

Letter to Antonio Montero

You may wish to talk to me about this. I would also appreciate your showing it to Mr. Kamarck.

Attachments:

Incoming letter

Memo

Reply

Mr. Woods's note.

Mr. C. F. Owen

25 October 1965.

Irving S. Friedman

ECONOMIC COMMITTEE MEETING

Please set up a meeting of the Economic Committee for a week from to-morrow to discuss, "The Future Economic Work of the Bank".

I may have a piece of paper to circulate to the Committee before the meeting but would prefer not to say anything about it at this time.

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October 22, 1965

Mr. George D. Woods

WBG ARCHIVES

Irving S. Friedman

Conversations on Supplementary Finance Study with Messrs. Merchant, Zagorin, Larre, Donner, Lieftinck and Solomon and some comments thereon.

I would like to report briefly on my conversations with the above persons on the supplementary finance scheme. There is considerable speculation about our study and unfortunately there are many misconceptions prevalent about our scheme. I think these informal talks have been helpful.

My first conversation was with Messrs. Merchant and Zagorin. I outlined the scheme to them. Mr. Zagorin did most of the talking. Mr. Merchant indicated that he would like to talk some more and we have a tentative appointment to do so at the beginning of next week. Mr. Zagorin was, on balance, favorable to the scheme and particularly enthusiastic with respect to such features as the insistence on performance as a prerequisite for assistance and agreed projections of exports. The only problem he raised was the question of whether this would affect IDA replenishment. I explained to him why we felt this was something distinctly different from IDA replenishment, including the fact that there was no reference in the study to IDA possibly being the administering agency despite the language of the resolution. Mr. Zagorin, however, commented that he felt that for the donor countries, particularly the United States and other principle donors, the real attractiveness of the scheme was in the fact that IDA would be administering it. I explained that this did not mean that we were turning our back on the possibility of administering it, but felt that this should be discussed later. Unfortunately he and Mr. Merchant had to leave for a meeting and we did not quite complete our conversation but hope to do so in the coming week with Mr. Merchant. Mr. Zagorin will be away for a number of weeks in connection with the Asian Development Bank and other Asian matters.

Mr. Larre: I outlined our scheme to Mr. Larre in some detail. His response was distinctly favorable. He even thought it was logical! However, he emphasized the grave difficulties of obtaining additional money for development finance, whatever the purpose. (As an aside he expressed the view that IDA would not be increased in the coming period.) He recognized that the scheme placed a great responsibility on the administering agency, but did not express any exception to this. In the course of our discussion the question of financing came up. He felt that no scheme would be taken seriously which said nothing about financing. He felt that this was the critical problem in the adoption of any new scheme and the failure to deal with it would make the study appear as an academic exercise. We discussed this point at some length and his concluding remarks were that, even if something vague and very brief were included, it might be helpful to indicate the awareness on the part of the authors that this was an important aspect of any practical scheme. I did not tell him what we would do, but have kept his comment in mind in going over our draft. I think it can be correctly said that he was appreciative of having been told about the scheme before it was finalized.

DECLASSIFIED

Mr. Lieftinck: I outlined the scheme in some detail to Mr. Lieftinck. He reacted favorably to it and thought that it made sense. However, he too emphasized the great difficulties of obtaining more funds for development finance for whatever purpose. Like Mr. Larre he inquired what the President proposed to do with the study. I told him what your views were and he expressed the hope that there would be ample time for a careful reading of the study and the giving of comments.

Mr. Danner: The conversation was on about the same lines as the conversation with Mr. Lieftinck, with a little less emphasis on having the opportunity to comment.

Mr. Solomon: I outlined the scheme to Mr. Solomon and he had a very positive reaction to it. He is enthusiastic about tying the assistance under the scheme to performance in the development field. He too expressed concern about obtaining the financing. His own inclination leans toward various French proposals of a rather complicated character which are really part of an attack on price instability through international commodity arrangements, stock piling, price agreements, etc. This approach is based essentially on the idea that consumers in importing countries might be asked to pay variable taxes when the prices for certain basic commodities fall below agreed levels.

He appreciated that this was a complicated approach and I did not have the feeling that he is pushing it vigorously. He seemed enthusiastic about the prospect of an enlarged role for multilateral aid through the World Bank Group but stressed the difficulties of doing anything which is burdensome on U.S. balance of payments, this could be the big stumbling block. In the course of our discussion we got onto the problem of finding \$3-4 billion more for development finance. He said that was "easy". To use virtually his words -- George was going to get his \$3 to \$4 billion by increases in IDA, the supplementary finance scheme and the refinancing of indebtedness. On the last point he hoped that the Bank would be willing to consider the refinancing of outstanding indebtedness to the Bank as part of a general approach to the problem. I expressed no view on this.

. . .

In connection with this question which comes up of the relation to IDA replenishment I have been using the following two arguments, among others, which I would like to bring to your attention.

One is that the time schedule of IDA replenishment and the supplementary finance scheme is very different. A decision on IDA replenishment must presumably be made some time in 1966 and probably well before the end of summer of 1966. The supplementary finance scheme, even if very well received, will take a year or two of international consideration, exchange of views, conferring, etc.

The second point, and also related, is that the argument that anything even being considered for supplementary finance might affect the attitude towards IDA replenishment can be applied to anything and everything in the field of development finance. Thus the amounts being considered for bilateral aid contributions to regional financial institutions, consortia pledges for

special purposes, export credits or export insurance schemes, etc., might all affect the IDA replenishment and vice versa. There was no reason to assume that it was only and particularly a supplementary financial scheme that would affect governments' attitudes on the magnitude and terms of IDA replenishment once it was clear that the Bank scheme was not formulated in terms of either being financed by supplementary contributions to IDA; moreover the terms on which the assistance would be given to countries having difficulties would not necessarily be on IDA terms, whatever they were in the future.

As to the balance of payments argument, I have noted that, at the earliest, the impact on the balance of payments would be toward the end of 1967, and more likely, 1968 - 69 because of the inevitable time spent between the proposing of a scheme and an internationally agreed and operating mechanism.

Mr. Kamarck

October 25, 1965

Irving S. Friedman

Joint Coffee Study

I read with interest your memoranda of October 22 on the Coffee Study. In view of the inability to be able to agree on a Director wouldn't it be better just to call off the entire thing?

I am troubled that we are going ahead with signature ceremonies when we really cannot see how this is going to be done.

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Mr. George D. Woods

October 22, 1965

Irving S. Friedman

Conversations on Supplementary Finance Study with Messrs. Merchant,
Zagorin, Larre, Donner and Solomon.

I would like to report briefly on my conversations with the above persons on the supplementary finance scheme. There is considerable speculation about what we are going to propose and unfortunately there are many misconceptions about what is in our scheme. My impression is that those who are gossiping about it are those who are unfriendly since the misconceptions seem all to be in one direction.

My first conversation was with Messrs. Merchant and Zagorin. I outlined the scheme to them. Mr. Zagorin did most of the talking and Mr. Merchant indicated that he would like to talk some more. We have a tentative appointment to do so at the beginning of next week. Mr. Zagorin was, on balance, favorable to the scheme and particularly enthusiastic with respect to such features as the insistence on performance and agreed projections of exports. He felt that this was a key aspect of the scheme. The only problem he raised was the question of whether this would affect IDA replenishment. I explained to him why we felt this was something distinctly different from IDA replenishment, including the fact that there was no reference in the study to IDA possibly being the administering agency despite the language of the resolution. Mr. Zagorin, however, was disturbed at this, saying that he felt that for the donor countries, particularly the United States and other principle donors, the real attractiveness of the scheme was in the fact that IDA would be administering it. I explained that this did not mean that we were turning our back on the possibility of administering it, but felt that this should be discussed later. Unfortunately he and Mr. Merchant had to leave for a meeting and we did not quite complete our conversation but hope to do so in the coming week with Mr. Merchant. Mr. Zagorin will be away for a number of weeks in connection with the Asian Development Bank and other Asian matters.

Mr. Larre: I outlined our scheme to Mr. Larre in some detail. His response was distinctly favorable. He even thought it was logical. However, he emphasized the grave difficulties of obtaining money for any increase in development finance for new ideas. As an aside he expressed the view that IDA would not be increased in the coming period. He recognized that the scheme placed a great responsibility on the administering agency, but did not express any exception to this. In the course of our discussion the question of financing came up. He felt that no scheme would be taken seriously which said nothing about financing. He said that this was the critical problem in the adoption of any new scheme and the failure to deal with it would make the study appear as an academic exercise. We discussed this point at some length and his concluding remarks were that even if something vague and very brief were included it might be helpful to indicate the awareness on the part of the authors that this was an important aspect of any practical

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scheme. I did not tell him what we would do but have kept his comment in mind in going over our draft. I think it can be correctly said that he was appreciative of having been told about the scheme before it was finalized.

Mr. Donner: I outlined the scheme in some detail to Mr. Donner. He reacted favorably to it and thought that it made sense. However, he too emphasized the great difficulties of obtaining funds for development finance for whatever purpose. Like Mr. Larre he inquired what the President proposed to do with the study. I told him what your views were and he expressed the hope that there would be ample time for a careful reading of the study and the giving of comments.

Mr. Solomon: I outlined the scheme to Mr. Solomon and he had a very positive reaction to it. He is enthusiastic about tying the assistance under the scheme to performance in the development field. He too expressed concern about obtaining the financing. His own inclination leans toward various French proposals of a rather complicated character which are really part of an attack on price instability through international commodity arrangements, stock piling, price agreements, etc. This approach is based essentially on the idea that consumers in importing countries might be asked to pay variable taxes when the prices for certain variable levies and when the prices for certain basic commodities fall below agreed levels.

He appreciated that this was a complicated approach and I did not have the feeling that he is pushing it vigorously. He does seem enthusiastic about the project of an enlarged role of multilateral aid through the World Bank Group but stressed the balance of payments implications on difficulties of doing anything which is burdensome on U.S. balance of payments. He talked, however, as though he expected the scheme to be internationally accepted and become a reality. In the course of our discussion we got onto the problem of finding \$3-4 billion more for development finance. He said that was easy. To use his words -- "George was going to get his \$3 to \$4 billion by increasing IDA, supplementary finance scheme and the refinancing of indebtedness." On the last point he hoped that the Bank would be willing to consider the refinancing of outstanding indebtedness to the Bank as part of a general approach to the problem. I expressed no views on this.

. . .

In connection with this question which comes up of the relation to IDA replenishment I have been using the following two arguments, among others, which I would like to bring to your attention.

One is that the time schedule of IDA replenishment and the supplementary finance scheme is very different. A decision on IDA replenishment must presumably be made some time in 1966 and probably well before the end of summer of 1966. The supplementary finance scheme, even if very well received, will take a year or two of international consideration, exchange of views, conferring, etc.

The second point, and also related, is that the argument that anything even being considered for supplementary finance might affect the attitude towards IDA replenishment can be applied to anything and everything in the field of development finance. Thus the amounts being considered for bilateral aid contributions to regional financial institutions, consortia pledges for special purposes, export credits or export insurance schemes, etc., might all affect the IDA replenishment and vice versa. There was no reason to assume that it was only and particularly a supplementary financial scheme that would affect governments' attitudes on the magnitude and terms of IDA replenishment once it was clear that the scheme was not formulated in terms of either being financed by supplementary contributions to IDA or the terms on which the assistance would be given to countries having difficulties would be on IDA terms.

ISF:da
10/22/65

October 19, 1965

Dear Mr. Adams,

Thank you for your letter of October 12, 1965. It was indeed a pleasure to be able to participate in the Financial Analysts Federation Conference and to exchange views on subjects of common concern to all of us.

Though the World Bank, the International Monetary Fund and the Agency for International Development are engaged in inter-related activities, as you know, the first two are international organizations with international participation in ownership and management, while the third, AID, is a United States Government Agency entrusted with the task of managing the U.S. bilateral aid program in developing countries. The International Monetary Fund is more immediately concerned with the problems of international monetary management, while the activities of the World Bank are more in the nature of providing finance and technical assistance in accelerating the process of development in developing countries.

Unfortunately I do not have a chart or a paper which brings together the relevant information about the activities of various organizations in the field of finance and development, but I enclose material on the activities of the World Bank and the IMF which would be of interest. As requested, I am also enclosing a copy of my statement of October 5 before the Financial Analysts Federation Conference.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Lyndon O. Adams
Northwestern University
Treasury Department
Evanston
Illinois

Mr. Friedman --

I was able to find this letter which you sent to Mr. Grondona on October 11, 1965. The correspondence that has been "lost" has been "found" - It seems as though Mr. Kalmanoff has been doing some research on this correspondence and he and Mr. Macone have a report ready for Mr. Woods -

After talking to Mr. Kalmanoff, Mr. Macone called and asked to see the latest letter on Grondona, so I will see that he gets it tonight.

L. Nelson

See Supplementary Financial Statement 1/20/66

Dear Mr. Grondona,

Thank you for your letter of September 21, 1965 and the enclosed copy of your article to "The Times". I read with considerable interest these and your book along with the copies of your letters to Mr. Schweitzer, sent to me in a separate cover.

I have, of course, been greatly interested in the general ideas that you advocate for our purposes of increasing international liquidity and stabilising commodity prices. I also note with pleasure that Mr. Schweitzer's staff is giving your proposal careful attention. In the meantime, I am passing on your valuable contribution to the subject of price stability among some of my senior economic staff for their information.

You might be interested to know that the Bank is preparing a study on supplementary financing for unexpected declines in export receipts which threaten to disrupt development programs. This study is in response to an UNCTAD resolution, and I hope that we will be finished with this work in the not too distant future. As you are well aware this UNCTAD resolution was in response to the kind of problem which you have been considering so long. I hope that you will find our study of interest and promise.

Sincerely yours,

George D. Woods

Mr. L. St. Clare Grondona
6 Knightsbridge Court
Sloane Street
London, S.W.1
England

ISFriedman:dm
10/11/65

September 24, 1965

Mr. Friedman summarized his understanding of the principle functions of the consultative groups as follows:

1. The consultative groups would consider analyses of development programs and related policies made by the Bank staff in consultation with the staff of the country concerned and the Fund. This analyses would aim to indicate that in the ~~view~~ of the Bank staff the development programs and policies were reasonable and merited international support.
2. The consultative groups would consider such analysis and presumably would have an exchange of views on them. The purpose of this exchange of views would be to reach agreement ~~with~~ ^{that} the members of the consultative group agreed that these development programs were reasonable and merited international support. This would eliminate from the arena a possible controversy where the donor or creditor countries concerned felt that a country was behaving poorly with respect to its development.
3. The consultative groups would also consider, together with the development programs and policies, the external financial requirements of a country. This might be projected over a planned period - say five years. This statement of external financial requirements would also be prepared by the Bank staff in consultation with the staff of the country concerned and the Fund. The aim would be to reach agreement with the country concerned that this statement of financial requirements seemed reasonable both to the country concerned and to the Bank technicians who would also have the benefit of the Fund views. This statement would be presented to the consultative group again with the aim of reaching agreement in the consultative group that it seemed a reasonable statement of external financial requirements.
4. The above having been done, the Bank, after consultation with the country concerned and other international agencies which might be involved, would present a list of projects which were contained within the investment program and needed international assistance. The Bank would indicate why it felt these projects were

Mr. Geoffrey Wilson

18 October 1965

Irving S. Friedman

Investment by IMF in IDA

In view of your telephone inquiry it might be useful to put down a few thoughts on why IMF investment of its reserves in IDA would not be a good idea:

1. The Fund is a revolving fund. It must always be concerned with doing its utmost to maintain its liquidity including the quality of its assets. The "reserves" of the Fund are held in the very currencies in which drawings are likely to be made at some time. Its "reserves" are not really contingency funds against defaults. In the literal sense of the word defaults are impossible in the Fund in the sense that the Fund always holds an asset - namely the national currency of the drawing country. Countries may fail to repurchase with another currency but this does not affect the total financial assets of the Fund, therefore, the Fund must be concerned with the quality of its assets and welcome the addition of currencies of a convertible character.

2. For similar reasons the Fund does not have anything that might be regarded as an "excess". Indeed, if it had an excess the question would arise why the charges are not being revised. The Fund charges do not perform the same functions as interest rates in the Bank; they are not the "cost" of borrowing money but rather an inducement to repurchase.

3. The Fund at the present time has \$800 million of investments in the United States on the theory that the Fund needs the income. If it were publicized in any way that it had an excess of income the question would arise as to why this investment was not being reduced. If done, it would involve the transfer of gold to the Fund by the U.S.

4. To the extent to which the Fund has liquid assets in its portfolio, whatever the source, the question arises of the investment of these assets. It is conceivable that the relatively small amounts that Mr. Kamarck suggested could be held in the kind of securities issued by the World Bank for purchase by central banks. Monetary authorities do not regard their reserves as excessive or available for distribution but they do invest them in income earning securities usually of a short-term character. I would see no objection in Mr. Cavanaugh exploring with the Treasurer of the Fund, if he has not already done so, some purchases by the Fund of our special issues for central banks.

5. In view of the possible interest of our Treasurer in this, I am also sending a copy of the correspondence to him. I would, however, still like to request that no approach be made to any Fund person without further discussion.

ISFriedman:fw

cc: Messrs. Cavanaugh
Eope
Kamarck

18 October 1965

Mr. Cavanaugh

700

I think the letter is a very good idea. I have made some suggested changes for your consideration, including an insert on the balance of payments position of Italy. In view of its importance I am suggesting that this insert be a separate paragraph.

I. S. Friedman.

DRAFT

RWCavanaugh:enk
October 14, 1965
+ additions by
ISFriedman:nw

Mr. Guido Carli
Governor
Banca d'Italia
91, Via Nazionale
Rome, Italy

Dear Governor Carli:

In each of the next few years it will be necessary for the World Bank to raise approximately \$400 million per annum of new funds it is my hope to raise a substantial part of such funds in the United States. However, not only because of the balance of payments position of the United States but also to maintain the international character of the World Bank, it is essential that we make every effort to raise as much of these funds as possible outside the United States.

I have followed with great interest and pleasure the improvement during the past year in the Italian balance of payments and international liquidity position. It is most gratifying that your efforts to promote balanced growth of the Italian economy within a framework of monetary stability has paid such handsome dividends. I gather that Italy may be experiencing the largest current account surplus recorded by any European country in the post-war period. I trust that these changed conditions will enable you to consider being of major help to the Bank in raising new funds.

As you know, you now hold almost \$8 million of our Two Year Bonds which we offer to central banks and other government agencies. We expect to have another of these issues next March and I hope that you will be able to subscribe liberally to that issue. Also you have in the past (through Cambital) purchased substantial amounts of up to 10-year maturities of the loans made by this Bank to Italy. I hope that you would again find it possible to acquire significant additional portions of such loans.

18 October, 1965.

Dear Peter,

Thanks for your letter of October
15; I thoroughly enjoyed your well run program
and enclose a copy of my remarks.

Lunch some time sounds like a good
idea.

Sincerely,

Irving S. Friedman

Mr. Peter Ladd Gilsey,
Vice President,
Loomis Sayles & Company,
888 17th St., N.W.,
Washington, D.C.

Mr. R. H. Demuth and Mr. A. M. Kamarck

18 October 1965

Irving S. Friedman

A Project for Research and Experimentation: Civic Participation to Assist Economic Development - by Erwin Schuller.

I have had some informal conversations with Mr. Schuller on the attached subject. I promised that after the Governors' Conference I would bring it to the attention of responsible officers of the Bank to get their reaction. He has worked closely with the Inter-American Bank and AID on similar ideas. He is well regarded by people like Graydon Upton, he is an investment banker by profession.

ISFriedman:nw

18 October 1965.

Mr. Kamarck

October 18, 1965

Irving S. Friedman

Machado Proposal

I don't know if you have ever been told this before but the President has an outstanding commitment to the Board for a staff paper on the so-called Machado Proposal.

I have read it and am prepared to discuss this with you or anyone else as to what we might do next.

Mr. de Vries

October 18, 1965

Irving S. Friedman

Statistical Cooperation between the Bank and OECD

With respect to cooperation on statistics between the Bank and OECD I thought that we had involved the IMF in this in one way or another. Perhaps you could have someone come up and speak to me about it.

re document A Proposal for Establishing an Expanded Reporting System on External Lending - October 13 - DBRD Economics Department and Mr. Mendels' letter to Messrs. Merchant, Stevens, Larre and Donner.

Mr. de Vries

October 14, 1965

Irving S. Friedman

Special Loan Committee Meeting - India

Since the Loan Committee is discussing India tomorrow (at 4 pm, Mr. Knapp's Conference Room) I think that we might wish to send a strong person to the meeting. Unfortunately I have a previous engagement or I would go myself. Mr. Knapp's office has been informed that someone will attend.

Mr. Kamarek

12 October 1965.

Irving S. Friedman

Contribution to IDA by IMF

I agree with the sentiment behind your memorandum of October 11, 1965, but I don't really think its a good idea for the IMF for reasons I would be glad to elaborate.

I hope nobody suggests this to any IMF person without talking to me first.

Thanks

ISFriedman:rw

cc: Mr. Wilson

Mr. Cope

Mr. McCorkle

October 11, 1965

Irving S. Friedman

Representation - Coffee for SID Council Meeting

On Friday, October 8 thirty cups of coffee were ordered from the Dining Room to be served to the Council members of the Society for International Development, who were meeting in the Conference Room 1038.

Would you please charge this to official Bank representation.

Mr. Owen

12 October 1965

Irving S. Friedman

Economic Committee Meeting Tuesday, October 19.

I would appreciate it if you would call a meeting of the Economic Committee for Tuesday, October 19 at 3 p.m. I would like to have the Committee discuss the economic work and activities of the Bank in the coming months -- say six month period.

It is clear that we have a very large and increasing load of economic work which must be done by the combined efforts of the economists in the Area Departments, Economics Department and Projects Department. This work includes much of the directional work of the Bank plus intensified work in connection with consultative groups and other activities.

I would therefore like to have the members of the Committee come prepared to discuss:

- (a) Anticipated economic reports
- (b) Anticipated economic missions
- (c) Work in consultative groups
- (d) Assignments of personnel
- (e) Suitability of present procedures for getting the work done in time
- (f) Other aspects of economic work.

I would hope that the members of the Committee would be prepared for a full and frank exchange of views of the problems which exist and how they best be met in the light of experience and available personnel.

Please circulate this memorandum to the members of the Economic Committee.

ISFriedman:nw

Mr. Kamarck

12 October 1965.

Irving S. Friedman

Preparation of Economic Work

In connection with our discussion on the organization and personnel for future economic work, I would appreciate your preparing, perhaps in consultation with others, a report on how an economic report is prepared in the Bank and how they might be streamlined if we are to do our work in the future.

I appreciate that there probably is more than one type of economic report, in which case you might wish to report on the different kinds.

Needless to say in asking you about this I am concerned about the use of economic reports not only as a basis for judgments by the Economic Committee relating to IBRD and IDA commitments but also consultative groups, annual reviews, compensatory financing, etc.

ISFriedman:rw

cc: Mr. Owen, Messrs. Pereira Lira, Nespoulos Neuville, Kochav, Sundrum
Sarma, Hulley and Jalan.

OCT 11 1965

Dear Mr. Kravis,

I am pleased to receive the copy of your report on price competitiveness in iron and steel and am glad to learn that the material you obtained from the Bank was useful in the preparation of this report.

As you know, your report deals with a subject of great interest to the Bank and I am bringing it to the attention of my economic staff. They may well find it useful to be in direct contact with you if they have questions or reactions to your study.

Yours sincerely,

(Signed) George D. Woods

George D. Woods

Mr. Irving B. Kravis
National Bureau of Economic Research Inc.
261 Madison Avenue
New York, N.Y. 10016

cc: Mr. Avramovic

ISFriedman:dm
10/8/65

October 7, 1965

Dear Mr. Thompson,

Your letter of October 1, 1965 with the enclosed plan for "World Peace through the Guarantee of Freedom and Sovereignty", addressed to Mr. Woods, has been passed on to me for reply.

We all share your hope for a free and balanced world. The plan and the machinery that you propose for its implementation is, of course, a matter for the national governments to take a decision on.

Thank you for the opportunity to read your views.

Yours sincerely,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Mr. Arthur Van R. Thompson
Boxwood House
Mendham,
New Jersey

cc: Mr. Woods
(for record purposes)



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 3		Barcode No. 1598696		
Document Date 10/6/1965	Document Type Letter			
Correspondents / Participants To: Mr. Richardson From: Irving S. Friedman				
Subject / Title Life insurance				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date August 16, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date August 16, 2023
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AUG 16 2023

Personal & Confidential

WBG ARCHIVES

October 8, 1965

My dear Koinzer,

As promised I am sending you a copy of our draft study on supplementary financing. You will notice that it is still "confidential" and an internal staff document. I am not circulating it to the Executive Directors so please regard this as a purely personal and private communication.

I enjoyed our chat -- I would only like to emphasize again, which you will see from reading the report, that I too do not believe in automatic schemes but feel that our proposal is very much not an automatic scheme, even though it aims to give assurance to countries which are good performers that assistance will be forthcoming when there is a problem.

Hoping to see you in the not too distant future,

Yours,

Irving S. Friedman

MR Koinzer
Economics Ministry
Department VI
Bonn
Duisdorf
Germany

Mr. Kamarek, Mr. Stevenson, Mr. Bell

October 7, 1965

Irving S. Friedman

Mission to India

I would like to suggest that a meeting with the four of us be set up to discuss personnel for the mission to India to review the development program if it takes place.

I will ask Miss McGregor to be in touch with you to fix a convenient date but thought you might like to have some advance notice.

Mr. S. Shahid Husain

October 7, 1965

Irving S. Friedman

Memorandum to Files - Meeting with Brazilian Delegation

I would like to draw your attention to the part of the attached memorandum which I have marked off. I do not believe that we are waiting for the results of the Coffee Study before having a view on our willingness to be the international entity that would decide on the diversification priorities. The discussion was a little confused on this point -- perhaps deletion might be the easiest solution. I would suggest that this little sentence be worked out in consultation with Messrs. Kamarck and de Vries.

Attachment

cc: Mr. Kamarck
Mr. de Vries

Personal - by hand

DECLASSIFIED

October 8, 1965

AUG 16 2023

WBG ARCHIVES

Dear Dick,

I am enclosing for your private and personal use a copy of our draft report on supplementary financing as promised.

If I can be of further help please call on me.

Sincerely yours,

Irving S. Friedman

Mr. Richard Richardson
Bureau of the Budget
Room 435
Executive Offices
Washington, D.C.

DECLASSIFIED

OCT 8 1965

Dear Bernard,

This is to let you know that I have received your letter of October 4 enclosing the curriculum vitae of Pierre de Longuemare. I will be happy to talk to Mr. Chadenet on this when he is ready to do so along the lines we discussed.

I enjoyed our conversations and hope that they will be renewed soon in Paris, Washington or elsewhere.

Sincerely yours,

Irving S. Friedman

Mr. Bernard de Margerie
Paribas Corporation
40 Wall Street
New York, 5, N.Y.

cc: Mr. Chadenet

ISFriedman:dm
10/8/65

October 7, 1965

Dear Mr. Kravis,

I am pleased to receive the copy of your report on price competitiveness in iron and steel and am glad to learn that the material you obtained from the Bank was useful in the preparation of this report.

As you know, your report deals with a subject of great interest to the Bank and I am bringing it to the attention of my economic staff. They may well find it useful to be in direct contact with you if they have questions or reactions to your study.

Sincerely yours,

George D. Woods

Mr. Irving B. Kravis
National Bureau of Economic Research Inc.
261 Madison Avenue
New York, N.Y. 10016

cc: Mr. Avramovic

ISFriedman/dm
10/7/65

Financial Analysts Federation Conference

Tuesday, October 5, 1965

Remarks by Irving S. Friedman

"The World Bank and the Free World Economics"

May I begin by expressing my appreciation for having this opportunity to participate in your Conference and to address such a distinguished group.

As you all know the World Bank group consists of the IBRD, more commonly called the World Bank; the International Development Association, more commonly called the IFC. Because of shortage of time I will speak nearly entirely of the World Bank and IFC activities since they are probably of most interest to you. For the same reason, I will dwell relatively more on the financial aspects of the IBRD and the IFC, although their non-financial activities and operations are of great importance and are a major preoccupation of the group. If you are interested, you may wish to address questions on these non-financial activities and on the IDA in our discussion period.

However, to avoid misunderstanding I should at least point out that the IDA is a major international institution with 96 member countries and cumulative usable resources of \$1.6 billion. As of the end of its fiscal year, June, 1965, it had extended 77 credits totaling over \$1 billion and negotiations are well advanced looking toward the commitment in the year ahead of a large portion of funds still available. Moreover, these credits, although on concessional terms - 50 years repayable in easy stages after 10 years of grace and only a service charge of $\frac{3}{4}$ of 1 percent - these IDA credits are for the same kind of carefully considered projects as those financed by the World Bank itself. Last week the Governors of the World Bank agreed to transfer to IDA \$75 million from the Bank's net income; \$50 million was transferred last year.

The World Bank's activities consist necessarily in large part of the

provision of finance and its impact is probably most readily seen in the statistical figures indicating the level of its operations as a borrower and as a lender.

The Bank started work in mid-1946 and its first emphasis was on the urgent problems of reconstructing some of war-damaged economics of Europe, for which it made loans totaling \$450 million. It was from this beginning that it turned its attention by degrees to what has become the main area of activity and its main challenge -- the financing of economic development. Since 1946 the Bank has made loans totaling \$8.5 billion for development projects and programs in 77 member countries or territories. These loans have gone to finance specific and Bank approved projects, and in cases where the borrower is a private corporation, a guarantee by the borrower's government is required. Of this \$8.5 billion, about \$5.5 billion is now held by the Bank, the difference of \$3 billion being accounted for mainly by sales of portions of its loans and repayments of principal.

Most of this development lending has been for basic utilities which, in the underdeveloped world at least, generally do not attract private investors. About a third of the total has financed the development of electric power. To give you an idea of the scope of this power lending, one can mention as an example, that in 14 countries of Latin America, the projects financed by the Bank have on average amounted to a doubling of generating capacity as compared with 1948. Another third of the Bank's lending has financed transportation -- especially railways, roads and ports. To take an example from Asia, such loans to India and Pakistan have helped or are helping to finance modernization of the railways and the improvement of cargo berths and hauling and storage facilities at Bombay, Calcutta, Madras, and Karachi. Most of the rest of the Bank loans have gone into industry and agriculture. The industrial lending has been for heavy industry or has been channeled into

private finance companies in the borrowing countries themselves, to be re-invested in establishing or expanding domestic industries. Such loans have not been confined to the bigger of the developing countries alone; loans for mining projects are now helping to transform the economic prospects of Gabon, and Mauritania. The agricultural loans have generally been for comparatively large schemes, and especially for flood control or irrigation projects that involve heavy capital spending.

Most of the loans have been made in the underdeveloped nations, although the Bank has also lent to others, such as Australia, Austria, Italy, Japan, New Zealand, Norway, and Denmark, whose need for capital was bigger than they can meet through ordinary borrowing. The lending has been fairly evenly spread about the world: Asia the most heavily populated region, has taken the largest share, followed by the Western Hemisphere, Europe and Africa. India is the largest individual borrower, with Japan in second place and Mexico in third.

Normally these loans have been medium or long-term with the principal repayments beginning at the end of a period of grace and thereafter spread over the remainder of the life of the loan. In establishing the length of its loans, the Bank has generally followed the principle that the term should bear some relationship with the estimated useful life of the equipment or plant being financed. For example, the cost of a hydroelectric power plant consists partly of installations such as a dam, embankments, a power-house and so on, which last for a very long time, and partly of generating equipment which has a shorter economic life. For such projects the Bank has usually made loans for 20 to 25 years. On the other hand, loans made for the purchase of less durable goods, such as trucks or farm machinery, have often been for about seven years.

The distinguishing feature of the World Bank as international financial

institution, however, lies not in the fact that it has made available for investment larger funds over a wider geographical area than other investment institution, but in the fact that most of the capital it has invested has come from the private capital markets of the world rather than from budgetary appropriations. Of the capital subscribed by member governments, only one-tenth is paid in. For the rest, the Bank relies on what it can raise in the capital markets of the world as well as repayment of amortization, and its net income from interest and from sales of portions of its loans.

The Bank raises funds, primarily by the sale of its bonds. The market for the Bank's bonds is international; altogether they have been sold in more than 40 countries. There is now the equivalent of about \$2,700 million of bonds outstanding in eight currencies - in Belgium francs, Canadian dollars, German marks, pound sterling, Netherlands guilders, Swiss francs and United States dollars.

On these bonds the Bank has paid a rate of interest very close to that paid by national governments borrowing in their own markets. The interest that the Bank charges its borrowers is determined by the rate that the Bank has had to pay. Thus, in practice, because of changes in money rates in the main capital markets in which the Bank sells its bonds, the long-term lending rate of the Bank has varied between 4% and 6%. For a long period, the Bank did not distinguish between borrowers in regard to the rate of interest charged; but lately we have decided that the Bank would charge countries, able to cover the bulk of their requirements for external capital from market sources, rates of interest roughly comparable to those they pay when borrowing in the market. Those rates would be up to one percent higher than the Bank's standard interest rate which is now 5%. Recently Japan and Italy have borrowed under the new policy. The Bank has been able to establish a good financial record. Net profits earned amounted to \$137 million in the fiscal year ending June 30 last.

This activity of mobilizing private capital for development purposes in the less developed countries has been important to us -- this is what we were set up to do. To this end, apart from selling bonds, we have been eager to draw investors still more directly into our operations. This we do by selling parts of our loans, either at the time they are made or out of our portfolio. About 500 financial institutions - mostly commercial banks and insurance companies have bought part of our loans; and in one recent case, investor interest was so high that out of a loan equivalent to \$7.5 million, all but \$35,000 worth was sold. This investor interest in Bank loans has been fairly widespread covering loans to almost all our borrowers, including the less-developed countries. In all, the Bank has drawn \$1,900 million of other capital into its operations by sales of loans.

Through 1950, most obligations sold from loan portfolio carried the Bank's guarantee. Increasingly, thereafter, sales were made without recourse to the Bank, and in the last ten years all such sales have been made without the Bank's guarantee which has reflected investor acceptance of the standard of Bank lending. While there is an element of cost to these transactions, it is an important part of Bank's business to do all it can to establish the credit of its borrowers in the world markets.

However, it should be noted that Bank sales of loan maturities have declined for the third successive year. As you all know, yields on other securities are rising in Europe. Moreover, the Bank is not offering the United States market portions of loans to countries whose securities are subject to the U.S. interest equalization tax and the voluntary program to reduce U.S. private commitments in the industrialized countries.

At times the Bank has even been able to introduce or re-introduce some of its borrowers, especially the European ones, directly to the New York market, by means of a combined operation in which a World Bank loan coincides with the

raising of additional funds from private investors. One early case of this involved the Kingdom of Norway; at the time as it borrowed \$25 million at long term from the Bank, it was raising another \$15 million by the sale of the shorter-term securities in the American market.

A number of other borrowers have since been able to do the same, among them Qantas Airlines of Australia, Air India International, Japan, Denmark, Austria, Italy. Altogether, the Bank has helped its borrowers raise nearly \$600 million from private investors in this way.

One direct beneficial result of the Bank's activity as a lender, not only to its borrowers but to its lenders as well, lies in its insistence on the principle of free international competition for procurement of goods for the Bank-financed projects. As a co-operative international institution, among whose principal purposes is promotion of the "long-range balanced growth of international trade," the Bank has insisted that all of its member countries should have a fair opportunity to supply goods which are financed by Bank loans. To this end the Bank asks its borrowers to obtain supplies on a competitive international basis unless this procedure is clearly inappropriate. In some cases, in order to make sure that maximum benefit is obtained from this system of procurement, the Bank at times has advised its borrowers to employ a qualified consultant to assist in determining the qualifications of bidders, in preparing specifications and in analysing the bids.

Along with this emphasis on mobilization of private international capital, we have also tried to encourage the growth of private initiative and production in the developing countries themselves - although we have not done this at the expense of financing urgently needed activities which by necessity and common consent are carried out in the public sector. We have thus far invested over a billion dollars in private enterprises. To put an even sharper edge on this effort, our member countries created the International Finance Corporation, or

the IFC as we usually call it, which works exclusively in the private sector, helping to shape new enterprises, providing them with equity and loan capital from its own resources, and bringing in other capital, managerial assistance and technical advice from abroad. For example, the IFC has sold or agreed to sell nearly \$30 million of its loan and equity investments in private enterprises and U.S. institutions and their affiliates have been the leading purchasers. The IFC as of June 30, 1965 had invested in enterprises in 32 countries. The experience of IFC in participating in the growth of private sector in the developing world makes an interesting educative and, indeed, an encouraging story about the prospects of private enterprise in these countries, and we have definite intentions of intensifying our efforts in this direction through this channel. The Governors of the World Bank have just authorized the Bank to lend to the IFC \$400 million to increase the financial capabilities for relending to private enterprises without government guarantee.

In another way, too, the World Bank has moved to facilitate the flow of capital into private industrial investments. I refer here to our increasing activity in support of local industrial investment institutions, popularly known as "development banks". We have now helped to create or strengthen as many as 19 of these industrial finance companies in Asia, Africa and Latin America. Our assistance to these institutions has not been confined to provision of capital; we have also helped them, at their request, in their personnel recruitment and other problems. All of these institutions are largely privately owned and privately operated and some of them have succeeded in attracting as shareholders not only local investors but foreign investors as well. We believe strongly that, in proper circumstances and properly organized and managed, the institutions can make a significant contribution to development. They can do this not only by providing long-term industrial financing to smaller and medium sized industrial enterprises -- a type of

financing nearly unavailable heretofore -- but also by establishing new standards of investigation and supervision and thereby creating confidence among local investors in the enterprise financed. And they can contribute significantly too, by serving as a link to foreign enterprise, skill, and capital. These commitments to private development finance companies have also helped develop local capital markets. For example, recently in the Mexican market there was carried out successfully the largest share issue ever made by a privately owned company in Mexico. Moreover, through the IFC the World Bank group gets first-hand experience with the risks of unsecured investments in private enterprises in the developing countries. The IFC has had a happy record of net profit making, but not without occasional losses. It has also had to make the same kind of difficult decisions as you gentlemen when choosing between lower returns on attractive equity investments and higher returns on loan investments. Because of the way the World Bank Group is organized -- with one President and a number of common officers and services -- this valuable down-to-earth experience is quickly communicated to and shared by the World Bank itself and the IDA.

So far I have talked about the financial aspects of our operation -- what we are doing to finance investments in developing countries and through what channels. But I often feel that the Bank's lending and borrowing are only the most noticeable part of the iceberg -- the fraction which shows above the surface. A great deal of the Bank's time is spent on a variety of other activities in the form of technical assistance and advice directed toward the promotion of conditions conducive to rapid economic growth -- to creation of a favorable investment climate in the broadest sense of the term. Our engineers and financial experts are engaged in regular visits to our member countries, investigating on the spot not only the progress of existing projects but the proposals for new projects which are constantly coming in. In the course

of their duties these men are able to render important technical assistance, especially when, as so often happens, the type of project being embarked upon is novel and requires new kinds of expertise on the part of the member country. In eastern and western Africa, for example, where the problems of development are particularly complex, the Bank has established permanent regional missions, primarily to assist governments in those areas to identify and prepare specific projects for presentation to the Bank. The relationship between the Bank and its borrowers is not confined merely to the granting of a loan, the dialogue between the two continues unabated throughout the operation of the loan. You will understand when I say that few projects get carried through to completion without meeting with some kind of difficulty or delay. Here again the Bank staff, who have had previous experience of delays and difficulties of many kinds with other projects, may be able by advice and suggestions, to help the borrower avert or solve his difficulties. Naturally, the extent to which the Bank's suggestions carry weight depend in an important way on a satisfactory working relationship between the Bank staff and the officials and other personnel of the borrower. In this connection I think it is interesting to emphasize that in supervising the construction of the projects it finances, the Bank takes great pains to impress on its borrowers that it does not regard its relation to them as being simply that of a creditor and its debtors, but rather essentially that of a relation between two partners bound together by a common interest in the successful completion of the projects.

One of the important products of this continuing dialogue between the Bank and its borrowers is that the Bank insists on being satisfied that the management arrangements for the projects it finances shall be satisfactory, and this entails from time to time agreeing on changes in existing practices which are deficient in this respect. This certainly contributes to the wider and deeper understanding of the proper functions of management in the Bank's member countries, and this in turn gradually improves the attractiveness of the investment climate

to other lenders or investors.

Apart from this kind of technical assistance on particular projects, the Bank also stands ready to assist member governments, at their own request, in the formulation of general programs of development which can serve as a framework for investment and other measures conducive to economic growth. For this purpose, the Bank has conducted comprehensive economic surveys in 25 countries, the most recent of these being in Morocco. This kind of economic work is also carried on the more general problem and policy question of development financing. The Bank is now preparing studies and recommendations on such matters as need for external capital by the developing countries, their ability to use external capital in specific projects, how to cope with the rising external indebtedness problem, how to mitigate the disrupting effects on economic development of unpredictable fluctuations in commodity prices, what might be done to eliminate the undesirable features of so-called supplier credits without impairing the use of private financial institutions in financing international trade, the possibilities of the establishment of a system of multilateral investment insurance, etc. These activities reflect the simple fact that the World Bank is a bank, but a special kind of bank -- namely a world wide organization with the obligation to promote the economic well being of its members and more particularly, to bring more order and stability into the highly important area called development finance.

Then there is another type of effort in which we are engaged. The amount of international financial assistance available to the underdeveloped countries is limited, and the need for better use and coordination of external aid continues to be urgent. The Bank took its first major initiative to assist in the coordination of aid in 1958, when a critical shortage of foreign exchange threatened to undermine the development program of India. A group consisting of the Bank and the capital exporting countries most directly concerned was

organized to surmount the crisis by mobilizing an adequate flow of external assistance. In 1960, a similar consortium was organized by the Bank for aid to Pakistan. These consortia have met repeatedly since their inception. Both have served as vehicles for objective comments on the economic performance and capital requirements of the recipient countries, and have served to coordinate external aid and improve the terms on which it is given. The Bank is also a member of consortia on Greece and Turkey administered by the Organization for Economic Cooperation and Development. For certain other developing countries, for example Nigeria, Columbia and Tunisia, the Bank has undertaken to organize consultative groups of interested capital exporting countries. These groups do not engage in annual aid pledges but in other respects they are intended to serve the same purposes as consortia.

The essential purpose of consultative groups is to provide a framework within which can be organized an orderly flow of capital and a stable, cooperative relationship between the developing countries and interested aid givers. It thus enables the recipient country and creditor countries jointly to consider the country's development program and needs in comprehensive, continuing fashion, rather than piecemeal, on the basis of competent, objective information and analysis. Thus it facilitates arrangements for obtaining finance, technical assistance and advice -- not only in amounts that it could effectively use, but also on appropriate terms for financing projects and programs that deserve priority. These groups also undertake a continuous assessment of the country's economic performance, and attempt to work towards timely correction of deficiencies. We believe that these consultations help to bring about a more adequate and assured flow of aid to the countries with a good record of effective use, and we are working to extend our activities in this area to cover a larger number of our less developed countries. At our Governors' Conference last week, the Bank's efforts in this field were widely and warmly endorsed.

Next, I would like to refer to one last perhaps unexpected line of evolution, one that springs especially from the Bank's character as an international organization bound to serve impartially the interests of all its members. Over the years, the Bank's reputation for objectivity has caused its members to call on it more than once to mediate or arbitrate disputes arising in fields in which it has some expertise. The case which probably is best known was the dispute that arose between the shareholders of the Suez Canal company and the Egyptian Government as a result of the Government's termination of the canal lease and the expropriation of company property. At the request of the parties concerned, the Bank undertook a detailed study of the issues and the facts; and in the end was able to arrange a settlement, now fully carried out, under which the shareholders received equitable compensation. The Bank or its President were asked to intervene in other cases as well: the disputes between the government of Iran and the Anglo-Iranian Oil Company, between the Governments of the United Kingdom and Egypt over the incidents of July 1956, between India and Pakistan over the sharing of the water of the Indus system of rivers.

In all these cases, the Bank was seeking to settle disputes whose existence, if continued, would have constituted in greater or less degree an obstruction to the international flow of private and governmental capital. Our experience has led us to believe that we might make some more permanent contribution in this direction by creating an international machinery under the umbrella of the Bank which would be available on a voluntary basis for the conciliation and arbitration of disputes arising between private investor on the one hand and the governments on the other. At the request of its Governors, the Executive Directors and the staff of the Bank have now completed work on the text of a convention on the Settlement of Investment Disputes. The Convention has already been sent to member governments for their consideration with a view to signature and ratification, acceptance or approval. Twenty-two countries have already signed the Convention; it will go into effect when twenty countries have signed

and ratified it. The operation of this Convention will create an element of confidence which will in turn contribute to a healthier investment climate.

Finally, a word or two on what might be called the economic performance functions of the World Bank. All have come to learn that it is not enough for the Bank to be concerned with the financing and evaluation of projects. On the national level specific projects must be seen in the context of over all economic and financial policies; otherwise, the resources spent on projects may be wasted. Perhaps, more important, the opportunity is lost to influence developing countries to use all of their available resources, domestic and external, as productively as feasible. It is small comfort to know that a country has better roads or improved energy availabilities or produces more minerals, if poor economic policies frustrate growth and development. Thus performance in governmental economic policies has become one of the primary concerns of the World Bank Group and much effort is devoted to helping countries improve their performance by technical assistance, consultation etc., and where necessary, by refusing to make financing available, until appropriate policies are adopted.

These are some of the highlights of the World Bank's evolution. This is a story not so much of our achievements, as of our efforts; we know well that the task that we have undertaken will not be complete in our generation, not even in the generation that succeeds us. The record of the past as to what has been achieved in terms of economic development may not be all encouraging but, our time dimension, it cannot be forgotten, is generations, not months or years. For you gentlemen, this is not difficult to see. You are repeatedly making decisions with long-term consequences and for long-term purposes.

Moreover, you gentlemen know from your daily experience that the great difficulties in foreseeing the future do not free you from the necessity of making decisions now. You know that such decisions are not postponable merely

because their effects are not felt for many years to come. Because of your experience, you will also know why we in the World Bank enjoy the challenges we have to face and take pride in our work. There is an excitement we here share together - the excitement of knowing that what we do is important and even vital, not only for ourselves and our contemporaries, but for generations to come. If I may end on a poetic note, it is like living on a high mountain - the far off views are dim and vague, but you and I can see them, and that is thrill enough for any man.

Thank you again.

September 24, 1965

Dear Charls:

I had hoped to be able to attend the Convention in Chicago, if only for a couple of days, The Governors' Conference is next week and on Tuesday October 5 I am one of the speakers at the Financial Analysts Federation Conference.

If time permits I may fly in for one day but in any case will not be needing hotel accommodation. The registration slip is enclosed herewith.

Hoping to see you soon,

Sincerely,

Irving S. Friedman

Mr. Charls E. Walker
Executive Vice President
The American Bankers Association
90 Park Avenue
New York, N.Y. 10016

September 21, 1965

My dear Mr. Minister,

May I express my congratulations on your appointment by the Government of the State of Sao Paulo as Minister of the Tribunal de Contas. It was my pleasure to read the news in your letter of September 10.

I do hope we will be seeing each other soon.

Very truly yours,

Irving S. Friedman

The Honorable
Otto Cyrillo Lehmann
Minister of the Tribunal de Contas
Government of the State of Sao Paulo
Rua Tavares Cabral, 119
Sao Paulo 9,
Brazil

Mr. Broches

September 23, 1965

Irving S. Friedman

Mr. Philip Glick

Phil Glick has sent me a copy of the letter he wrote to you. I would be glad to give you my impressions of him if you are considering him for an appointment and would like to have my comments.

Mr. Dana Brantley

September 17, 1965

Irving S. Friedman

Governors' Conference - Social Events

It would be appreciated if, in the listing of invitees for official social events during the Governors' Conference, the staff members listed could be treated as approximately equivalent to Deputy or Assistant Directors:

Mr. N.A. Sarma
Mr. P. Pereira Lira
Mr. R.M. Sundrum
Mr. Andre Nespoulous-Neuville
Mr. David Kochav

The following are senior consultants in the Bank:

Dean Edward Mason
Mr. Frank Tamagna
Mr. Isaiah Frank
Mr. J. Hulley

Thank you.

cc: Mr. George Homsí

E R

Mr. Reamy

September 16, 1965

Irving S. Friedman

Expenses

It would be appreciated if the attached expense account could be reimbursed to Mr. Waage. He came to the Bank at my invitation for staff interviews.

Mr. Don L. Waage
Investors Diversified Services Inc.
Investors Building
8th and Marquette
Minneapolis, Minn. 55402

Mr. George D. Woods

September 17, 1965

Wilfried Thalwitz

Voting on Supplementary Finance Proposal, sponsored
by the U.K. and Sweden, at UNCTAD

1. In response to your request I am giving the following information on the voting on the Supplementary Finance Proposal, sponsored by U.K. and Sweden, at UNCTAD. I am basing this on the official documents of the Conference and my recollection as one of the Bank representatives at the Conference.
2. I am attaching a copy of the resolution which has two parts, A and B. Part A is what is commonly referred to as the U.K-Swedish proposal, at present being studied by the Bank.
3. The official documents of the Conference record the results of voting procedures only by numbers. According to the records the Conference adopted the resolution in the Plenary by 106 votes to none, with 10 abstentions. I recollect that the abstentions came from Cuba and the Soviet Bloc, namely U.S.S.R., Byelorussian SR, Ukrainian SR, Poland, CSSR, Hungary, Roumania, Bulgaria and Albania.
4. All the Western countries and all the developing countries voted for the resolution. This was agreed upon while the proposal was being discussed in the so-called Third Committee of the Conference, the committee on finance. The Western countries, including Japan, favored a Bank study (Part A), while the developing countries were more in favor of a study to be done by the future secretariat of the UNCTAD. (Part B).
5. Australia and France gave recorded formal observations on their vote on the supplementary finance resolution. Both countries expressed reservations about the suitability of financial measures as a method of dealing with long-term shortfalls in export receipts. France maintained that the real solution lies in the organization of commodity markets.

WT:prl

September 16, 1965

Dear

Thank you for your copy of the New Zealand Government's Second Report on Utilisation of Kapuni Natural Gas, which I am circulating among our staff.

Yours sincerely,

Irving S. Friedman

Mr. H.S. Bloch
President
Zinder International, Ltd.
757 Third Avenue
New York, N.Y. 10017

September 16, 1965

Dear Mr. Baty,

In reply to your letter of September 13, I am sending a request to our Economic Development Institute, who handled the International Economic Association meetings here in Washington, to mail you a set of the papers directly.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Harvey F. Baty
Coordinator
International Programs
Purdue University
Lafayette, Indiana

Mr. R.A. Clarke

September 16, 1965

Irving S. Friedman

Mr. Gunesakara

Apropos our conversation on Mr. Gunesakara I hear that the IFC is looking for names of people who might manage development finance companies. I would judge that Mr. Gunesakara might be quite suited to that kind of responsibility.

Mr. Gordon Williams

September 15, 1965

Irving S. Friedman

Jacobsson Memorial Lectures

I wonder whether it would be possible to send an invitation to attend the Jacobsson Memorial Lectures to Mr. Eugene Havas. He is an old friend of the Fund and an old acquaintance of Mr. Jacobsson's.

Before World War II he was one of the correspondents of the London Economist. Since World War II he has lived in Washington. He is in the investment and investment counselling business and is friendly with most of the leading financial figures in Europe and the United States including such people as Governor Frere, Mr. van Gardner and Mr. Martin.

BAJMEATHER

Mr. Eugene Havas
3205 R Street NW
Washington : D.C.

Mr. Wishart

September 15, 1965

Irving S. Friedman

I would like to draw your attention to your helpful memorandum of September 2.

For future reference the work on Supplier Credits is being done by

Messrs. A. Nespoulous-Neuville
P. Pereira Lira
J. Hulley

Mr. Karasz is helping out in Europe but is not really doing much on this any more.

DECLASSIFIED

Personal

September 13, 1965

AUG 16 2023

WBG ARCHIVES

Dear Wilfried,

Thanks for your letter of September 6 and I'll be looking forward to seeing you on the 24th.

By all means keep the weekend free and we'll fit in some golf. Would you like to stay at our home over the weekend? In any case I am sure that Edna would be happy if you were able to spend some time with both of us at home and have a few meals together.

In the meantime why not join me in my office for tea on the 24th - 4 pm would be fine, or whatever time suits you?

Yours,

Dr. Wilfried Guth
Mark Hopkins Hotel
San Francisco
California

Air Mail - Special Delivery

Mr. George D. Woods

September 10, 1965

Irving S. Friedman

Visits to Brazil, Argentina and Chile

I will not attempt to report in detail on my visits to Brazil, Argentina and Chile. I am making available separately to the Departments concerned the detailed information which I obtained, and will inform them in more detail of the exchange of views which took place. Instead I would rather try to summarize my thoughts on the three countries separately under three headings, namely the economic situation and outlook; secondly the economic teams which are running the various programs; and third relations with the Bank. No notes were taken during any of these conversations; thus these remarks are based on memory.

I found everywhere a very friendly reception, both as an individual, and as an officer of the Bank, and to the new ideas which we have been trying to develop in the Bank. In all cases I was given ample opportunity to meet the top government officials including the leading financial and economic ministers, the President and Vice Presidents of the Central Bank, as well as other senior officials. I also asked to meet the leading people in business and finance, and did meet many business leaders in these countries and had the benefit of numerous conversations with them on their views on the economic situation and outlook and on the future of their countries. In all cases I made clear that the conversations were not for quotation or publication. The individuals concerned spoke freely and frankly. I found that by shuttling back and forth between the private and official sectors I was able not only to learn more but also help build bridges between the two. In all cases I found myself stressing the point that unless there was constructive and useful cooperation between the business community and the government there was no real hope for a lasting improvement in the country's economic outlook. I also had the opportunity for useful talks with the U. S. Ambassador in the three countries. The talks with Ambassador Dungen were particularly helpful.

1. Brazil

Economic Situation and Outlook

The economic situation in Brazil is essentially in line with the Government's program. The Government is still trying to bring the inflation under control gradually by reducing the rate of increase of prices, keeping wages increases lower than price increases, restraining credit, increasing taxes, etc. and thus changing the inflationary expectations and outlook of business and labor. Prices have risen in Brazil as expected and are likely to rise by about 40% to 50% by the end of this year, somewhat more than was originally anticipated, but still considerably below the 80% to 90% of last year. The budgetary situation is about as expected with revenues and expenditures proceeding according to expectations. The main slippage has

been in the monetary situation where the monetary expansion has been much larger than anticipated and the ceilings agreed with the Fund have been exceeded. The main reason for the excessive credit expansion has been the developments in the coffee sector rate. Coffee exports were not as large as expected, while at the same time the new crop has been much larger than expected. This has resulted in a larger than expected increase in monetary circulation because the increase in credits to finance the new crop have not been offset by increased revenues from taxing coffee exports, but rather the reverse.

The exchange rate has been kept stable although there is widespread belief that the exchange rate is not over-valued. My impression is that the Government people, including the people in the Central Bank, agree with this view and would be prepared to change the exchange rate but fear its implications for the anti-inflationary program. The Government is confronted with the anomalous situation that while the exchange rate is regarded as over-valued, foreign exchange reserves at the same time have been rising. Part of the explanation for this is the reflux of foreign exchange funds into Brazil in response to the credit restraint, combined, for the same reason, with the retention in Brazil of funds that might otherwise have been re-mitted abroad. The increase in reserves has, of course, caused favorable comment but for the Government it is also a source of embarrassment. It means that if the authorities would like to devalue the exchange rate they would have to do it at a time when reserves were going up. This would be hard to explain. Furthermore, at this time there is a certain reluctance to change the exchange rate because the period of negotiation for new wage contracts has just begun. The officials believe that by keeping the exchange rate stable they may be more likely to succeed in their wage policy than if the exchange rate were to depreciate. On the other hand, there is an awareness that with prices rising the maintenance of the same exchange rate penalizes exports and makes imports excessively cheap. Moreover, keeping the present exchange rate has made it more difficult to stay within the Fund credit ceilings. At present the Brazilians are discussing with the Fund the possibility of a large increase in the ceiling on monetary expansion and one of the Directors of the Central Bank is here for this purpose. They were concerned with the Fund reaction because of the tie between the Fund standby and their commercial loans from New York banks, and also its effects on their financial arrangements with the Europeans. (I understand that they have not yet obtained any money from the Europeans).

The business community in Brazil seems to feel that by and large the economic situation is not too bad from their point of view. They were impressed with the way the Government handled the so-called recession of last April, May and June when measures had been taken to stimulate consumption, for example, of automobiles. There were some businessmen who continued to complain of the depressed conditions in their industries such as textiles and food processing. Others, however, stressed the fact that a strong market still exists in Brazil for their products. Some complained of the exchange rate by saying that it made it impossible for Brazil to export abroad particularly because of the high additional charges on imports and the inability to procure components abroad. Others complained of the failure of the Government to implement its promised certain public works programs, said to be needed to offset declines in business activities in other sectors. There was also some dissatisfaction with the excessive bureaucracy and red tape in dealing with the Government and lack of coordination between the federal Government and the provinces.

The Brazilians are still adhering firmly to the rule of insistence on domestic procurement when such goods are available domestically, irrespective of price. The Brazilians say that they have a very liberal import policy, but they stressed the need for continued protection. I told them of Mr. Woods's recent statement on this matter. Mr. Campos obviously would prefer to have an even larger margin for domestic suppliers but was clearly not too unhappy with the Bank's policy.

With respect to the future of the inflationary trend, I found a mixed outlook in the business community. Some seemed to reflect the attitude of a real change in expectations. These individuals accept the point that without inflation business will have to be conducted on a much more competitive cost basis and that this might mean hardships for industries which have been depending on inflationary demand. Other business leaders, however, seemed to feel that the inflation was going to continue, perhaps not to the extent experienced in the past, but as long as it was in the magnitudes of 25% to 50% a year, they would still be able to assume that inflationary conditions would make it possible to sell all they produced. On balance I would say that the business community is anticipating a change in the economic situation but is not yet convinced that this change will actually take place.

The business community seems divided on its support of the economic and financial efforts of the Government. Some are not happy about the new provision with respect to taxes which in effect maintain the effective tax liability by providing for increases corresponding to changes in the price level. This avoids the possibility of the tax burden being reduced by simple postponement of payments. Similarly, some are not too happy about the credit restraint and point out that in Brazil there is not the possibility of borrowing medium and long term money from internal sources as there is in other countries. Some noted that foreign loans essentially help the public sector rather than the private sector and expressed resentment at the ability of the public sector to go ahead while they themselves were experiencing financial difficulties. However, they all supported the idea of the Government obtaining financial assistance from abroad and also some kind of debt rescheduling. A number of businessmen expressed pride in the fact that Brazil had not defaulted on its past obligations. Bulhões seemed to be particularly concerned with criticisms from the private sector and was much interested both in what I was being told by private individuals and urged me to tell them my own evaluation of the economic situation. (He also urged me to talk to the U. S. Ambassador and the U. S. team headed by Mann visiting Brazil at the time).

In summary I would say that the business community supports the Government politically but is uncomfortable with its economic program. On balance I would say that the economic program is going fairly well but is still in the critical uncertain stage. The continued rise in prices means that pressure for wage increases, further monetary expansion, likelihood of budgetary imbalance, need for large scale recourse to the Central Bank, further exchange depreciations, etc., are all real possibilities. Therefore much of the judgment on the business outlook is really a judgment on the ability of the economic team (Government and Central Bank) to manage successfully the policy of "gradualness". This will depend in large part on the degree to which they will obtain political support for their programs, and the acceptability of their programs by business and labor, as well as the foreign community.

The Economic Team

The economic team of Campos, Bulhoes, and to an increasing extent Nogueira, the new President of the Central Bank, is well known. Most interesting is the role which Campos has seemingly consolidated for himself as in effect the economic prime minister of the country. This seems to be based on wholehearted and overt support by the President. There seems to be good working relations between Campos and Bulhoes. I have the impression that the new President of the Central Bank is also part of the inner team. I personally found much less buck passing and division of opinion than I had found in previous discussions with Brazilian authorities of similar rank and responsibilities. What seems to be uncertain is what will happen politically. At the moment the President seems determined not to run in 1966 for the Presidency or to have his term extended next year and thus make an election avoidable. There is therefore considerable speculation as to who will be the next President. Among the candidates are various military leaders who supported the President last year when he became the head of the Government. The more left-wing groups have been supporting Marshall Lott. The President seems to feel that the recent nomination of Marshall Lott by one of the parties is dangerous and may undo what he regards as the desirable effects of the Revolution. Moreover, there are authoritative stories indicating that Marshall Lott's nomination was secured by strong arm tactics by the left-wing elements in the labor movement. Many businessmen would like to see the President remain in office. While I was there there were considerable hints that Campos may be the President's choice as his successor. In Brazil there is the expression that when a person thinks of himself as becoming a President he is regarded as having been attacked by the "blue fly". There are some rumours that Campos has been attacked by the blue fly, including his current visit to Russia to study planning there.

Despite the slippage in the economic program, particularly in the monetary field, I feel there still is a fair chance of success for the program because of the caliber of the economic team and their firm support by the President. If, however, there should be a change in the economic team, or a change in their political position, then a reevaluation of the economic outlook would be necessary.

Relations with the Bank

I did not speak with the Brazilian authorities about the details of the Bank's relations with them. They were appreciative of the efforts of the de Vries mission and its results. They were, of course, looking forward to an expanded program with the Bank and felt that they had a good friend in the Bank: Bulhoes, however, expressed some concern with the procedures of the Bank and the implications they would have for the current program. He emphasized that there were certain particular needs, such as agriculture and roads, which had to be tackled immediately. He recognized that any comprehensive program would take a good deal of investigation and time. However, there were certain things that had to be done fairly quickly or the entire program could fail. He, therefore, expressed the hope that it would be possible for the Bank to agree rather quickly on some things that could be done soon, and leave for more deliberate consideration and future actions things on which immediate agreement could not be reached. I said

that I would pass on his view to the President and others in the Bank concerned with these matters. (Mr. Aldewereld has been informed). Bulhoes and Campos were also much interested in the work the Bank has been doing with respect to the DAC, the measurement of the needs of developing countries for external capital, absorptive capacity, etc. I left with them the various statements which you had made at DAC. Bulhoes expressed the hope that the Bank would take the lead in pointing to some of the world wide problems affecting all the developing countries. For example, he was concerned with the growing tendency towards regionalism. He was also concerned with the growing nationalism and the tendency of all countries to seek nationalistic solutions to their problems. He felt that this problem had become critical and that it was necessary for someone having a world wide platform to speak out in advocacy of a truly international approach to the problems of economics and finance. He felt that the heads of the Bank and the Fund were the logical persons to express such views.

All in all, I would say that the relations between Brazil and the Bank are good; that there is a realistic understanding in Brazil of why the Bank is doing what it is doing and an appreciation of the new efforts being made by the Bank. However, there is also a remembrance of the long period in which the Bank was relatively inactive in Brazil and a watchful, hopeful alertness as to whether or not the present improved atmosphere is going to lead to important changes in the actual financial relations between the Bank and Brazil.

2. Argentina

Economic Conditions and Policies

It is difficult to summarize the Argentine economic situation without sounding overly pessimistic. On the positive side business conditions are relatively good, without as much tension as in the past from violent labor disputes and political uncertainties. The export movement is most satisfactory, being in magnitudes of about \$1.4 billion, with very strong world demand for Argentine grains, meat, and other products. Individual business leaders are complaining about the credit "squeeze" and unavailability of financing for inventories and investment, but the credit "squeeze" has not resulted in a recession or unemployment. Budgetary receipts are at an all time high and the Government has not had to resort to Central Bank borrowing for four months. Further recourse to the Central Bank will be necessary before the end of the year but is expected to be within the ceilings agreed with the Fund. Improved budgetary techniques are being introduced with tighter controls over government exports and receipts -- a sore need in Argentina.

On the negative side, the expectation of continued inflation, both in business and labor circles, still prevails. The Government efforts to change this inflationary expectation has not yet succeeded. Capital flight continues and has indeed probably been intensified by recent exchange control measures, particularly on foreign travel. These measures have widened the exchange spread between the official rate and the black market rate, with the inevitable consequence of further undermining the confidence in the currency. The official rate is MSN 170, and the black market is around MSN 260 to MSN 280. The exchange rate is clearly unrealistic and its retention is only doing harm. Wage increases have been higher than the wage line

which aimed at increases of about 22 per cent per annum. The actual increases have been closer to 35 per cent. It is questionable whether the monetary and fiscal policies can continue to be relatively successful in light of these wage increases. The business community continues to have very little confidence, if any, in the Government. Contacts between the Government and the business community are sporadic although there have been recent improvements. The railways and other State enterprises continue to be in a mess. The oil negotiations have not been consummated although a final settlement is expected any day. The business community does not feel that the Government is strong enough to back up the official wage policy or its other policies; if Government support is not forthcoming, labor sit-ins and even violence to employers and their families are feared. There is, therefore, a tendency to submit easily to labor demands and assume that inflation will solve the resulting problems. Many in the business community expect the credit restraints to be relaxed in light of these increased pressures.

On the positive side Mr. Elizalde and others insisted that they do not intend to give up their wage policy and that business firms acceding to higher wages will find themselves unable to obtain the bank credit to finance their increased costs. On the budget side, efforts are being made to pare down expenditures in order to prevent excessive monetary expansion in the future and to reduce further the reliance by the Government on the Central Bank. On the railways the former head of the railways has now been replaced by a man from the "economic team" (Hidalgo). The present tactics are to try to find as much area of agreement as possible with the unions and then, if necessary, accept a general strike before capitulating on matters which agreement can not be reached. In this way the union's responsibility for the general strike would become clear. A final statement on the petroleum question is expected any day; there are said to be no questions of principle remaining but only a few minor questions of detail.

Economic Team

On the basis of many hours of private conversations I was quite favorably impressed with the team being run by Minister Pugliese, who in addition to his political experience, is clearly getting a grasp of the substance of his responsibilities and is emerging as the "boss" of the economic team. Elizalde, Carranza (Planning) and Garcia Tudero (Treasury) seem to be the strong men on the team. They have other able members on the team and seem to be becoming a cohesive group able to act together. The real question is whether the President can or will give them the kind of political support they need. At a small dinner party which the President gave for me, he expounded at considerable length on his political persuasion and tactics. He seemed to believe that what Argentina needs is a period of calm, so that the political and social environment can be established which is necessary for sensible business as well as governmental decisions. The uncertainties as to the transfer of political power -- particularly as to how and when -- must come to an end. Incidentally, even the most severest business critics of the Government agreed that the atmosphere in Argentina is more relaxed and favorable to carrying on business than it has been in recent years, particularly during the period of the conflicts between the military forces.

I believe the economic team is gaining experience, a sense of realism and more self-confidence. For example, Mr. Elizalde and others reacted quite sensibly to my reports on the unfavorable attitude of the business community towards the Government, and said that it was important for them to try and improve their relations with business. They took the point that their program could not be successful without the good will of the business community. Minister Pugliese seems to have done most along these lines. The economic team said that they would give more attention to improving relations with the business community and to the possibility of allowing them to have more of an impact on policy making in the formative stages. Moreover, efforts would be made to have good relations with the international organizations, particularly the Bank and the Fund, and with foreign creditors and investors. On the exchange rate the Central Bank and Government people argued that they were living up to their commitments to the IMF in maintaining their exchange rate since they were not using official reserves to do so. They seemed to be trying very hard to avoid a devaluation and are proposing to use bonds to avoid the need to make the foreign exchange repayments falling due in the fall of 1965. If the bonds aren't successful, depreciation would become inevitable. My own impression is that at least Mr. Elizalde is well aware that the rate is over-valued and needs changing, whether or not the proposed bond issue is successful.

Relations with the Bank

The Argentine Government feels that it ought to do more on a regional basis, that is after consultation with other countries in South America -- Chile, Peru and Uruguay were referred to most often. However, they feel well disposed toward the Bank and appreciate the support which the Bank has given them. They took the point that the Bank had shown considerable confidence in them as a team, and in its assessment of the outlook for 1965/66. They were very interested in what Mr. Woods had said at the DAC and are eager to have closer relations with the Bank. As you know certain projects are under active consideration. I did not exchange views on these proposals. The Argentinians are well aware of their understanding with the Bank and seem to assume that the Bank will be guided in its actions by the performance of the Argentine Government.

3. Chile

Economic Conditions and Policies

The Chilean situation was in some respects the most difficult to assess. On the one hand the President is enjoying widespread popular support from all sections of the population. The economic program is going more or less as planned. However, there seems to be great uncertainty in the minds of both the Government and business leaders as to the future, particularly if Congressional approval of the copper deal is not obtained, while business leaders seem very distrustful of the Government, particularly of the Congressional members of the President's party.

The inflationary expectation in Chile has not been broken. Prices are expected to rise by 25 per cent and wages by a similar amount. Money supply will probably rise greater than expected although by not much more. The reason for this greater than expected monetary expansion is said to be the effects of the recent storms which were very damaging, both in the Santiago and Valparaiso areas and further South. However, tax collections have been better than expected largely because of a change in technique of tax assessment. (The Chileans introduced a capital tax based on an estimate of wealth and also have a cost-of-living adjustment for income tax collections. The tax payer can in effect choose between paying more income taxes or less capital tax or vice versa).

At the moment the 1966 budget is being put together. In the new budget agriculture, including agrarian reform and industry, are getting the highest priority. Much will depend, however, on the inflow of new external funds. More tax revenues are expected but from better collections, not new or higher taxes. It is hoped to put income taxes on a pay-as-you-go basis but the current rate of improvement in tax receipts is not expected in 1966. An increase in Government investment is also expected as well as some increase in current expenditures, including a general increase in Government salaries of somewhat less than 25 per cent, plus wider incentive increases. Business conditions have been generally good with unemployment at about 4 per cent. The growth rate this year is expected to be about 4 to 5 per cent in real terms with an average growth rate of 5½ per cent projected for 1965-66.

The plans for 1966-69 seem quite optimistic in that they assume a large inflow of external assistance and a very high rate of public and private savings. Large scale assistance from the World Bank is clearly anticipated. With respect to the foreign debt new negotiations are expected to start by mid-1966. The balance of payments is regarded as more or less satisfactory with considerable help from inflow of foreign assistance and favorable copper prices abroad. However, exchange restrictions have resulted in an active black market with rates varying from 6 to 8 escudos per dollar, compared to the official rate of about E 3.80 per dollar. The authorities are not trying to eliminate the black market, but it is illegal and it may be said to be "blacker" in Chile than it is in Argentina. The authorities are still taking the line that they don't expect balance of payments difficulties after 1969 because of the expected increase in receipts from copper. They seem to be trying to avoid a change in the exchange rate and speak of paying much of their backlog of foreign exchange payments in bonds having an exchange guarantee. My impression was that there is general recognition that the exchange rate is over-valued, but uncertainty as to what the new rate should be or when it should be changed. Some of the authorities seem to feel that an exchange rate change is not necessary because Chile is in a position to "fix" the world price for copper.

The relations between the Government and the business community are not good. The business community leaders to whom I spoke all expressed good opinions of President Frei but seemed to feel that there were only few others in the Government that were sympathetic to the business community or were understanding of their problems. Among the individuals

mentioned favorably were Raul Saez. Moreover, there were very extreme opinions expressed with respect to certain members of the President's Christian Democratic Party. These were referred to as Marxist, Socialist, etc. There seems to be a general feeling that the Christian Democratic Party will emphasize social reform and reliance on the public sector irrespective of the economic consequences or cost. There seems to be fear that the Government will involve itself in and more more enterprises which are more properly in the sphere of the private sector. In a conversation, former President Alessandri spoke of the land reform as a catastrophe which would lead to a decline in agricultural production when an increase was urgently needed. He also spoke of new wage bill which proposed to give labor 15% of profits before taxes. Many business people expressed the view that the President is not in a position to control his party members in the Congress and that for this reason, although the President said reasonable things and undoubtedly was well intentioned, the legislation coming out of Congress tended to be "socialistic" and anti-business. Instead, I believe it is fair to say that the feat of the Government which was expressed in Chile was even greater than that expressed in Argentina. The failure of the Congress to pass the copper law was cited over and over again as an example of the inability of the President despite his widespread support to control Congress. Moreover, the trade unions are regarded as communist-controlled and hostile or at least non-cooperative.

Economic Team

The economic team in Chile gave me a very different impression from that in Brazil or Argentina. There are a number of good men in the team. I would point especially to the Vice President of the Central Bank, (Carlos Massad), to Raul Saez, and with somewhat less enthusiasm to Molina, the Minister of Finance and President of the Central Bank. However, unlike Argentina or Brazil, this team does not have the confidence of the political groups which are represented by President Frei. The only important exception is the Vice President of the Central Bank who suffers from being very young (I believe he is about 31 or 32). The Minister of Finance, Molina, is regarded as a hangover from the past administration and a technician not in line with the sympathies or attitudes of the Christian Democratic Party. Molina himself emphasized that this Government does represent a real break with the past. He agreed that there was considerable uncertainty in the business community but felt that the business community would simply have to change their habits and customary activities. However, he insisted that he was not anti-business, that indeed he felt there had to be spelled out a clear definition of the role of the private sector as well as the role of the public sector, and in addition the role of the mixed sector. He felt that if this was done it would then be possible to have better relations with the private sector, Molina also stressed the need for land reform and the other social objectives of the President. Thus, despite his past association with President Alessandri, the Finance Minister is clearly trying to pursue the same point of view as that being championed by the President.

My own impression is that, as compared with Brazil and Argentina, what is distinctly missing is someone who might be regarded as the boss of the economic team and the President's deputy and spokesman for economic affairs. Perhaps the single most encouraging thing I heard was that the economic team believes that the policy of import substitution has come to a dead end in Chile and that exports must be emphasized in the future. The single most discouraging bit of news was the inability to get through the copper law. I was told that the copper law would be passed because actually the Radicals views could be met by two changes. These two changes were:

- (1) Putting the details of the law in the legislation rather than in the Presidential decree, and
- (2) By minor changes in the foreign exchange requirements as applied to foreign companies.

However, since then there still seems to be difficulties in getting the law through the Congress, particularly through the Senate. However, all in the economic team agreed that, if the copper law did not go through, all bets were off with respect to the entire economic program. If, however, the copper law is passed and if President Frei is able to transform his political prestige into effective support for his economic program, then the chances of the success of the present program are greatly enhanced. However, the relations with the business community are critical. The Government will have to make up its mind whether it will pursue a policy that will win the confidence of the business community or not.

Relations with the Bank

I found the Chileans were very interested in the work being done in the Bank and the implications for Chile. Molina and others are very interested in the problem of consultations. The Chileans were in the midst of finishing their preparations for the coming CIAP discussions in October. They are being subjected to quarterly reviews by the AID, repeated missions by the Fund, IBRD, and others. They said that they would welcome consultations with the Bank on economic policies related to development but did wonder whether it wasn't possible for all the outside agencies or at least some of them to get together and avoid duplication of work on the part of harassed Chilean officials. It seems clear that the very top officials are themselves involved in the preparatory work because of their lack of adequate underpinning in the various ministries and the Central Bank. I told them that the Bank was also concerned with the problem of duplication of work and was giving careful consideration to such matters including possibilities of further collaboration with the Fund.

In their programs the Chileans are obviously assuming that there will be a large inflow of funds from the World Bank. Moreover - their business community is very keen on the establishment of a private development bank and spoke to me about contacts with the IFC on this matter. I understand

that further contacts have been made. By sheer coincidence a luncheon called for me so that I could meet the leading bankers turned into an organizational meeting to set up the necessary preparatory group for the formation of a development bank which had been requested by the IFC officials.

I found a very friendly attitude towards the Bank and a willingness to cooperate with a realistic appreciation that the Bank would have to be guided by the performance of Chile in determining the magnitude and timing of its development finance assistance to Chile.

ISF:pr1

"Ossola Report" on the Creation of Reserve Assets.

The Study Group on the Creation of Reserve Assets under the Chairmanship of Signor Ossola was instructed by the deputies of the Group of Ten to examine various proposals regarding the creation of reserve assets either through the IMF or otherwise. The specific instructions for the Study Group were to provide in its report "a description and analysis of each proposal, bringing out significant similarities and differences of underlying principles, functions and modes of operation" and to "assemble the elements necessary for an evaluation of the respective proposals" It was not asked to and it does not attempt to - pass final judgments or to express preferences on ~~individual~~ individual proposals; its mandate was only to "assemble the elements necessary" for an evaluation by the Deputies of the various proposals.

In examining the general economic ~~and~~ financial aspects of the various proposals, the deputies asked the study group to bear in mind a number of considerations. There include: the compatibility of the various proposals with the evolution of the existing world monetary system; their contribution to a greater stability of the system; their ability to direct liquidity to countries in particular need; the extent to which proposals could be used to increase the volume of reserves "across the board"; the creditworthiness of the claims offered as reserve assets; the machinery they would need to control both the amount and the distribution of the reserves that would be created by different schemes; the effect which different proposals would be likely to have on the relations of the Group of Ten with the rest of the world; and finally, the question of the desirability of an approach to the liquidity and reserves question by a relatively small group of rich countries ~~as~~ as distinct from a world-wide approach.

Bearing in mind the above guidelines, the report gives its detailed consideration to the various proposals put forward as a means of increasing the worlds supply of liquidity. The Group, of course, could not discuss all the innumerable proposals that have been presented, but suggests instead that these would seem to fall under three headings. There are: the creation of a new reserve asset by a group of countries; the creation of a new reserve asset through the machinery of the IMF by, for example, "use of gold tranche or super gold tranche rights, claims resulting from borrowing under General Agreement to Borrow or other borrowing by the fund or deposit liabilities by the Fund"; and schemes for providing countries holding surplus currencies with an alternative asset.

Chapter III contains a description of each of these various methods of ~~increasing~~ increasing liquidity; Chapter IV a comparative analysis in, what the report calls, a "horizontal" manner - that is a discussion of the major questions that arise in establishing means ~~for~~ for reserve creation. Out of this examination emerges an analysis of the differences among the various schemes, and Chapter V brings together these various analytical points, in favor or in opposition, of each of the schemes in a 'vertical' manner.

The Report is purely descriptive it does not try to make judgments on basic divergences among countries in their attitude to the question of international liquidity. As the conclusion of the report states plainly value judgments diverge on four basic issues. These are, in the first

place, "the question of a link between gold and a new reserve asset, the closeness of that link, and its effects on the existing system." Secondly, "the width of membership for purposes of management and distribution of the assets". Thirdly, "the role of the IMF as regards deliberate reserve creation." And finally, "the rules for decision-making concerning the creation of reserve assets."

The divergences on these issues among the different members of the Group of Ten are well-known, and the Report discusses them in considerable detail. Perhaps the chief merit of this expert study is that it does not look for a technical or economic answer to these questions, but underlines the fact that decisions about creating liquidity are political ones which can only be taken by national governments.

September 7, 1965
Bimal Jalan

September 13, 1965

Dear Wilfried,

Thanks for your letter of September 6 and I'll be looking forward to seeing you on the 24th.

By all means keep the weekend free and we'll fit in some golf. Would you like to at our home over the weekend? In any case I am sure that Edna is happy that you will be able to spend some time with us at home and have a few meals.

In the meantime why not join me in my office for tea on the 24th - 4 pm would be fine, or whatever time suits you.

Yours,

Dr. Wilfried Guth
Mark Hopkins Hotel
San Francisco
California

Air Mail special delivery.

September 13, 1965

Dear Dr. Lehmann,

Thank you for sending to me the newspaper accounts of my visit to Sao Paulo.

As you know I found the visit most worthwhile and I know this was largely due to your efforts.

Please give my warmest regards to your wife as well as yourself and I am sure that Mrs. Friedman wishes to join me in sending these greetings.

Yours sincerely,

Irving S. Friedman

Dr. Otto Cyrillo Lehmann
Usinas Eletricas do Paranapanema S.A.
Sao Paulo
Brazil

September 10, 1965

My dear Adarkar,

Thank you for your kind note of August 13 which came while I was out of the country.

I am enjoying my job at the Bank but do find that it is very hard work. However, I am fortunate in having some very good help and particularly pleased with Sarma who is able to be with me.

Thank you also for the resume of Mr. Rao. I am bringing this to the attention of those who might possibly be able to make use of someone like him.

I do hope we will have the occasion to see each other soon in Bombay or Washington.

With warm regards,

Sincerely,

Irving S. Friedman

Mr. B.N. Adarkar
Deputy Governor
Reserve Bank of India
Central Office
Bombay, India

September 10, 1965

Dear Mr. Corduan,

Thank you very much for sending me the pictures of the visit to your factory. They are very nice reminders of a very pleasant and instructive visit.

Please give my regards to Mr. Hubacher and the other officers from your Company whom I met during my visit.

Sincerely yours,

Irving S. Friedman

Mr. J.Z. Corduan
Volkswagen do Brasil
Sao Bernardo do Campo
Brazil

September 10, 1965

Dear Eli,

Thank you for your letter of August 2 enclosing the resume of Mr. Sayed, which came while I was out of the country - I had a most interesting trip to Brazil, Argentina and Chile.

I will pass on the information to the possibly interested people here and will write again giving their reactions to Mr. Sayed's resume.

Hoping to see you soon,

Yours,

Dr. Eli Shapiro
Professor of Finance
Graduate School of Business Administration
Harvard University
Boston
Massachusetts 02163

September 10, 1965

Mr. Kamarck:

1965/66 Annual Report:

I would agree with this but suggest that Mr. Tamagna be added to the group.

Mr. Kamarck's memo of Sept. 2 to set up team to work on the next annual Report:

Mr. Kochav - principal responsibility

Cttee: Mr. Friedman
Avramovic
Isaiah Frank
King
Sundrum

Mr. George D. Woods

September 10, 1965

Irving S. Friedman

First Session of Committee on Commodities - UNCTAD

When you find the time I believe you will find of interest the attached report of the First Session of the UNCTAD Committee on Commodities.

Attachment

Mr. Geoffrey M. Wilson

September 10, 1965

Irving S. Friedman

Comments by John White on DAC Meeting

I am planning to send the attached letter to Miss Rowan. May I say that despite the letters to us being marked "Personal and Confidential" I see no reason why this cannot be shown to Mr. Woods without permission from either Miss Rowan or John White. It is obviously being circulated within the ODI as well as to you, Mrs. Castle and myself. I found the report interesting, but there are a number of things which I would not agree with either factually or analytically.

Attachment

Personal and Confidential

DECLASSIFIED

September 10, 1965

AUG 16 2023

WBG ARCHIVES

Dear Miss Rowan,

Thank you for your letter of August 10 and please excuse my delay in answering as I have been out of the country.

I have read Mr. White's notes and found them quite interesting. I cannot say that I would agree with all of the points, but perhaps he and I might have a chance to talk about it some time either in Washington or London.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Miss Tevis Rowan
Overseas Development Institute Ltd.
160 Piccadilly
London W1
England

DECLASSIFIED

AUG 16 2023

September 10, 1965

Personal

WBG ARCHIVES

Dear Thorhallur,

I was very pleased to get your letter of August 30. Edna and I hope very much that Lilly will come along with you. How about saving a Saturday after the Governors' Conference for us, perhaps lunch, afternoon, dinner, or all combined. I assume that you will be terribly busy during the week itself and you seem to be scheduling your arrival for just before the Conference.

I was most interested to learn about Sverrir going to Minnesota. Don Waage happened to be here the last two days and he of course was very pleased to hear of Sverrir's plans. He will be very happy to have Sverrir call on him and his family any time he wants. The office phone number in Minneapolis is 372-3750.

I was also glad to hear that Wilffied's visit was a great success. From my own experience it is easy to imagine how much he must have enjoyed his stay in Reykjavik.

Looking forward to seeing you soon and with warmest regards to you, Lilly and the girls,

Yours,

PS. Kenny leaves in two weeks' for Earlham College, a Quaker school in Indiana, and Johnny is off to a Quaker boarding school called Sandy Springs, close to Washington. We hope to be able to tell you more about it when we see you in Washington.

B.Jalan
9/8/65

Economic Committee Meeting on Supplementary Finance

DECLASSIFIED

Summary of Mr. Friedman's Statement

The Economic Committee met on September 7, 1965 to discuss the issues arising out of the Bank Report on the above subject. The Area and Projects Departments had already submitted their written comments, but at the request of the Chairman they orally restated their reactions to the various aspects of the report.

Mr. Friedman, in his reply, suggested that various comments relating to the technical and definitional aspects of the report should be taken up at a later date after due consideration has been given to these by the writers of the report. There were, however, two or three basic points, an appreciation of which was essential for an understanding of the approach adopted in the above report.

The first point is with respect to the proposals likely impact on the work of the Bank. The formidable administrative task involved in implementing this proposal was repeatedly emphasized by various commentators. There is no point in under-estimating this aspect -- the report was written with the full awareness of its likely administrative implications, but also in the clear hope that if found acceptable, by the time this proposal becomes effective (which would be in late 1967 at the earliest), the Bank would be in a position to meet these new responsibilities. This is an important point to bear in mind -- this proposal does not fit into what the Bank is doing now, but into what the Bank could potentially be doing two or three years later. The proposal was written with the full knowledge that it might also involve a major shift in the Bank's work, and even in Bank's policy -- but also with the conviction that the Bank would be prepared to effect such a shift, if it thought it worthwhile. The proposal may digress from the Bank's function as of now, but that is unimportant; the more important

question is whether the task we are undertaking is worthwhile. This is the question to which the Report addresses itself, and this should be a test of the merit of the Report.

The point has been made that the proposal attacks only a minor problem in the field of development. Why not tie it to the problem of long-term financing of development as a whole or to the problem of commodity stabilization? There, of course, can be no doubt that this, if it could be done, would be ideal. But would it have been politically feasible? The nations of the world, when they met at UNCTAD, had indicated their highest priority through unanimous vote for international efforts in this direction, and the writers of the Report felt that it was best, from the point of view of its eventual acceptance, to consider this problem in isolation from all others. But in doing so, the effort was to evolve a scheme that would fit into a broader picture, and would at least solve one problem without making any others worse.

Some have felt that the proposal is too far reaching. The proposal as put forward in the Report would involve a regular appraisal of the development plans of the developing countries and agreement on development policies. It is recognized that the procedure suggested in this proposal would be quite out of proportion with its size, but the point here is that in ~~writing~~ writing this report, the "agreement" and "performance test" were not conceived of as a new departure solely for this one specific purpose. Instead, this procedure was suggested because it seemed that the whole field of development finance was now moving towards a concept of "performance". Today it seems to be an international consensus that in order to make aid effective, a mutual agreement on "performance" is necessary; and it was felt that this present scheme should be tied to that concept. What the content of this agreement should be -- whether to tie it to one or two key indicators or to a review of a whole economy -- is, of course, a matter for further careful consideration. These questions are open and the views of the writers are quite

flexible with regard to these. Further, it should be kept in mind that the report is not an "operational manual" -- it does not tell us how exactly this scheme should be operated. No scheme can, the operational details can only evolve through practice.

Finally, there have been doubts whether this scheme won't divert finances from some other existing channel. This is difficult to judge; no one can judge now whether the implementation of this scheme would entail curtailment of, say, IDA funds. The proposal was, however, written in the belief that it won't -- it is supposed to fill one gap in the field of development finance rather than transfer funds from one channel to the other. This is just as far as one can go -- one cannot presume to make judgments as to where the money for this scheme is going to come from - if such a scheme is acceptable to the governments.

September 8, 1965

Dear Mr. Andre,

Attached hereto is a copy of the letter
which was sent directly to Ambassador Forthomme
in Brussels.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Marc Andre
Attache
Embassy of Belgium
3330 Garfield Street NW
Washington, D.C. 20008

Files

September 8, 1965

Irving S. Friedman

Discussion with Mr. Marcus Fleming on Compensatory Financing Report

In discussion with Mr. Fleming today he said that the Fund staff had been reading the report on Supplementary Financing, however, they would not give comments until they had been formally requested to do so.

I agreed that during the course of next week the Fund would receive such a request but that in the meantime the Fund staff would be reading the present version, as it was not expected to be amended substantially. I told him that it was my hope to have the report go to the Executive Directors of the Bank by the time of the Governors' Conference.

Mr. Owen

September 8, 1965

Irving S. Friedman

Economic Committee Meeting - Sept. 7

Please prepare quickly a list of questions which were raised at yesterday's meeting. It may be that some of the points were not made as questions, but what I am looking for are points raised for which we have to have some kind of answer.

Miss Joanne George

September 3, 1965

Daphne McGregor

Secretarial Assistance

On Tuesday, September 7, Professor Tamagna will join Mr. Friedman's group on a consultative basis. He intends working at the Bank 2 or 3 days a week, and has requested secretarial assistance (preferably the same secretary) for these days. Your assistance in this is greatly appreciated.

September 2, 1965

My dear Felix:

It was most enjoyable to have had the opportunity to spend a week in Buenos Aires, and particularly to have the opportunity for exchange of thoughts with you.

I found that my visit taught me a great deal for which I am grateful, as well as being most enjoyable. I am sure that what I learned will help me in my work in the Bank. If I can be of any help to you in your most important and difficult undertakings please call on me.

I would also appreciate it if you would express my appreciation to Minister Pulecio, Garcia Tudero, Carranza, Grinspun, and the others. I was impressed by their sense of dedication as well as their ability and would like to again express my hopes for the success of your efforts.

Looking forward to seeing you in Washington.

Sincerely yours,

Irving S. Friedman

Felix Gilberto Elizalde
Governor
Central Bank of Argentina
Buenos Aires
ARGENTINA

ISF:pr1

September 2, 1965

Dear Dr. Lehmann:

I would like to thank you again for making our visit to Sao Paulo extremely interesting, instructive and enjoyable. Please also extend my thanks to the others who were so kind and hospitable to me.

My Wife and I will long remember our visit and hope to repeat it sometime. I also hope that we will have the opportunity in the future to reciprocate your hospitality in Washington.

With warm regards,

Sincerely yours,

Irving S. Friedman

Dr. Otto Cyrillo Lehmann
Advogado
Rua Sao Bento, 59-60 Andar
Sao Paulo
BRAZIL

ISF:prl

September 2, 1965

My Dear Roberto:

I have just returned to the office from my South American trip, followed by a few days of holiday.

I would like to thank you again for a most interesting and instructive visit to Brazil. Because of your efforts I was able both to see people and places and to get a first hand impression on matters of deep concern to me. Please convey to Mr. Amarin (I am writing separately to Octavio de Bulhoes and Dr. Lehmann), and the many others who were helpful to us how much I appreciated their efforts on behalf of my Wife and myself. In view of our long friendship I need not add that if I can be of any help in your most important efforts please call on me.

With warm regards,

Sincerely yours,

Irving S. Friedman

His Excellency
Roberto Campos
Minister of Planning
Government of Brazil
Rio de Janeiro
BRAZIL

ISF:pr1

September 2, 1965

My Dear Octavio:

I do wish to thank you and Mrs. de Bulhoes again for making our visit to Brazil so worthwhile in every respect.

I found our conversations particularly instructive and illuminating, and I hope that we will have occasion to have more in the future. I plan to continue to follow the situation in Brazil and perhaps needless to say, send you my best wishes for the success of your program.

I do hope we will be seeing each other at the time of the Governors' Conference.

With warm regards to you and Mrs. de Bulhoes from my Wife and myself,

Sincerely yours,

Irving S. Friedman

His Excellency
Octavio Gouvea de Bulhoes
Minister of Finance
Government of Brazil
Rio de Janeiro
Estago Guanabard
BRAZIL

September 2, 1965

My Dear Minister:

I would like to thank you again for a most worthwhile visit to Chile. I learned a great deal which I am sure will be useful in carrying out my responsibilities in the Bank. Please be assured that the thoughts you expressed to me are being given the most careful consideration.

I would appreciate it if you would extend my thanks to others in the Government and the Central Bank. I found all of my talks illuminating and the hospitality warm and enjoyable. I do hope that you and your colleagues succeed in your difficult task, and if I can be of any help please call on me.

Looking forward to seeing you at the Governors' Conference.

With warm regards to you and the others.

Sincerely yours,

Irving S. Friedman

His Excellency
Sergio Molina
Minister of Finance
Government of Chile
Santiago
CHILE

ISF:pr1

COMPENSATORY FINANCE STUDY

Points that must be made.

1. Must help overcome fundamental export problem by helping to develop and thereby achieve export diversification.
2. Help alleviate or ameliorate terms of trade problem by providing for financing when export receipts fall - broader in approach than price changes only - if export receipts decline while demand for imports decline - then make room for further acceleration of development - or building of reserves which diminishes dependency on foreign assistance or enables further liberalisation of payments, or combination - very little likelihood that windfall from this development widespread, sustained or large.
3. Combine features of help when really needed, suitable terms of lending, insistence on performance as substitutes for discipline of high interest rates and repayment or need for more frequent rescheduling - (also essential features in broad definition of performance including fiscal, monetary, commercial, exchange, economic policies, etc. which affect development process - Another feature is relation to projects, if at all feasible - non-project use will be regarded as highly exceptional - not theoretical, but practical standards - try to be sufficiently precise to avoid misunderstanding.
4. Must assume close cooperation with IMF as well as full cooperative relations with members.
5. Aid, if agreement is reached - will certainly be available when needed.
6. Need to maintain imports for development - not only to provide basic food-stuffs, raw materials, capital goods, maintenance, etc. (essentials) but also imports needed for competitive reasons to avoid wasteful investment therefore do not regard intersification of grs. as alternative to financing support when export receipts decline.
7. Concept of being "beyond members control" applied by insisting on good performance, includes realistic export rates and avoiding conditions which discourage exports and ~~inflationary~~ bop - could be checked out by comparing with world developments in international trade levels or trade in particularly commodities - but too ever-simplified to rely on statistical indicators for performance more realistically and fully seen by overall consolidation of economic situations and policies. inflationary
8. Export trade as essential for development - probably more than fundamental assistance - want to encourage vigorous exports by LDC's and willingness to import by DC's and other LDC's.
9. Reject "moral approach" i.e. ought to be compensated no matter what policies - not economic - not objective - not administratively feasible.
10. To be really helpful - must be prepared to be relatively large, if warranted - cannot expect for large scale assistance without performance - exceptional cases, possible to get assistance elsewhere - not part of permanent arrangement in scheme.

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10. To be really helpful - must be prepared to be relatively large, if warranted - cannot expect for large scale assistance without performance - exceptional cases, possible to get assistance elsewhere - not part of permanent arrangement in scheme.

11. Check out (and perhaps include in report) which countries could qualify which clearly not - one reason or another - dry run.
12. Not limited to IDA countries - (concept actually could apply to all countries - just as IMF does) - however, in this Report should make clear distinction between present proposal and universability of IMF - cannot be limited to IDA recipients.
13. Success does not depend on ability to make precise forecast - just a reasonable one and joint responsibility and relation of development program to it - difficulty not in forecasting but in agreeing on development program and related policies and obtaining performance - unfair to all (recipients and donors) not to apply similar standards - distinctly different from politically motivated assistance.
14. If countries cannot perform for reasons within country e.g., government unable to do so because of political and administrative feasibility - cannot have access to automatic system - can have access to other sources of assistance or to international agencies - but completely on ad hoc basis.

Rep. Ellsworth's memo on "Preparatory Commission for an International Monetary Conference".

1. Secretary Fowler in his speech declaring U.S. willingness to attend an international monetary Conference (July 10, 1965) had suggested that a Preparatory Commission for such a conference be given its terms of reference at the 1965 Annual meeting of the IMF. The attached memorandum contained the view of Rep. Robert Ellsworth on the desired composition and terms of reference of such a Commission:-

1. It is suggested that the Preparatory commission should not set a date for the conference until the industrial nations have reached basic agreement on a formula for reform which would, then, in effect be ratified by the Conference, for as Mr. Fowler had emphasised "to meet and not succeed would be worse than not meeting at all."

2. The developing countries should be invited to participate in the Conference. Their problems are real and any negotiated formula for international monetary reform should take cognisance of their views. However, a voting formula should be found which, through giving them an appropriate voice, does not give them a commanding position in the proceedings. An easy solution would be to establish IMF membership as the sole criterion for invitation to the Conference. If the Soviet Bloc nations then joined the IMF, they would be welcome at the Conference too.

3. In plenary sessions and in Committees of the Bretton Woods Conference, almost all decisions were made on the basis of an absolute majority. If the same system were to be followed in the proposed Conference, the developing countries would easily command an absolute majority on a one-nation one-vote basis. If is, therefore, suggested that some system of weighted voting would be appropriate to give proper significance to the international role of the reserve currency nations and major traders. The memorandum favors the voting procedure now in operation for IMF quota increases.

4. The membership of the Preparatory Commission itself, it is suggested, should be viewed as a function of the tasks assigned to it. If its job were to negotiate an acceptable formula for international monetary reform for the conference to ratify the commission should consist of representatives of the industrial countries with some representation afforded to the developing countries. Under this approach the Group of Ten with active observers to represent the developing countries might be an appropriate Preparatory Commission. If, however, the job of the commission were to be merely to facilitate the negotiation of the advance agreement, the membership of the commission could take on of the three forms (i) all nations attending the conference itself should send a representative; (ii) It might consist of institutional rather than national representatives, e.g. technical experts from BIS, IMF, OECD, UNCTAD, EEC; (iii) The Board of Executive Directors of the IMF or a similar Board may represent a middle ground between the national and institutional representative commissions. The memorandum favors this last approach, since on the IMF Board the developing countries have a specific voice in the decisions taken, yet are represented by only a few representatives.

Bimal Jalan
August 16, 1965.

Mr. Gordon Williams

August 18, 1965

Irving S. Friedman

Per Jacobsson Foundation Lectures

With respect to your memorandum on the above lectures I find that the majority are receiving the information direct from you and have only two names to add who have expressed interest in receiving the announcements:

Mr. Andre Nespoulos Neuville - Room 1034
Mr. John Halley Room 1012.