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Brandt Commission - Chronyfiles,

Sep. 1978 - March 79



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Paris, le II septembre 1978

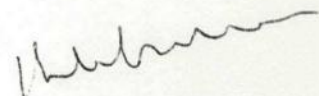
836/2/72

Monsieur le Président,

J'ai bien reçu votre lettre du 31 juillet et le rapport de la Banque Mondiale qui y était joint. Je vais le lire avec beaucoup d'intérêt puisqu'il concerne les sujet auxquels j'ai toujours attaché une grande importance.

Diverses circonstances concernant notamment ma santé m'ont obligé à ne pas maintenir ma collaboration à la Commission que préside M. Willy BRANDT mais je continue à souhaiter vivement que cette commission puisse apporter une collaboration positive au travail auquel elle s'est adonnée et qui vous préoccupe, je le sais, beaucoup aussi.

Veillez croire, Monsieur le Président, à mes sentiments les meilleurs et les plus dévoués.



Monsieur Robert S. McNAMARA

# ICIDI

836/2/71

INDEPENDENT COMMISSION ON  
INTERNATIONAL DEVELOPMENT ISSUES

Bonn, September 7, 1978

Office of the Chairman

Dr. Rainer Steckhan  
Director  
World Bank  
66, Avenue d'Léna  
75116 Paris / France

Dear Mr. Steckhan,

I would like to come back to the discussion you had with Mr. Willy Brandt on August 23, 1978. In the course of these talks he informed you about the plans of a German scientist, Dr. Peters (Heinrich-Heine-Straße 93, D 2800 Bremen) to bring out a new type of atlas in which each country of the world community would be presented on a double page together with data and tables pertaining to its history and actual economic and social situation. The individual proportions of each country are deducted from a new world map that Dr. Peters has developed and which is already increasingly used in Germany. With this map, according to Dr. Peters, the former Europe-centered character of presenting the World is left behind in favour of a geographically more balanced picture of the developing world, which on his map now occupies some two thirds of the map and, thus, reverses the former presentation where the "North" took that space.

In this context, I would like to remind you that Willy Brandt as Chairman of the "Independent Commission on International Development Issues" spoke about this new map in his (publicized) opening remarks and gave a copy of it to each Commission member (see page 7 of his enclosed speech).

With the new descriptive atlas that Dr. Peters would like to publish -- also and preferably in English -- he would like to make a contribution to presenting the world as it really is. Thus, he wants to strengthen the notion of true partnership within the developing world and help them to acquire a clear consciousness of their own position in the world.



Mr. Brandt thinks that such endeavours merit careful, benevolent studies by institutions which might be able to advance such projects. I have, therefore, sent the project description etc. of Dr. Peters to you by separate mail and would very much appreciate if you could forward it to the World Bank in Washington. ✓

In the coming months Mr. Brandt will equally attempt to interest UNESCO for this project.

Thanking you for your kind assistance, I am,  
with best regards,

Yours sincerely,

  
(Fritz Fischer)





836/2/70

Opening address by Willy B R A N D T,  
Chairman of the Independent Commission on International Development  
Issues at Gymnich Castle,  
December 9, 1977

FOR RELEASE ON DELIVERY AT DECEMBER 9, 1977, 3 p.m.

Herr Bundespräsident,  
Ladies and Gentlemen,

Let me start by extending a warm word of  
welcome to all of you -- and I include  
those members of our new Commission who  
have been unable to be with us already  
today.

We appreciate very much that the Federal  
President has been kind enough to parti-  
cipate at this opening session and that  
he will speak to us.

We will meet President Scheel again later  
today, and there will also be an exchange  
of views with the Federal Chancellor.  
Foreign Minister Genscher who has made  
this place available, would have liked to  
be with us -- he sends his best wishes.

Of course, we also appreciate the presence of the media. Though most of our discussions will be in private -- according to the particular character of this Commission -- we shall depend on these media to convey our message to those whom we seek to address in the richer and the poorer countries.

It will be of decisive importance that the world's press should realize and tell the world's public that the subject of our discussions -- the cooperation between North and South -- is critical for the future of world peace, and for the sort of world in which our children will have to live.



Let me add a word of caution: Do not set your expectations too high.

We should not expect that such a Commission independent of governments could solve all the problems that have troubled the international meetings of the past few years.

This Commission is not seeking to take the place of governments in the ongoing negotiations. But we may have some advantages: We are under no instructions. We do not carry the burden of national government's prestige. And we are not forced to try and win "victories" for our particular views. We can afford to seek the common interest and thus to make

a helpful contribution to a policy of peaceful but speedy change. Such change can be brought about within the remainder of this century if both rich and poor nations are convinced of the necessity to act.

We must also contribute to that public conviction and to the sense of urgency.

This Commission is anything but uniform. Its members not only have different backgrounds and experiences, but also have differing convictions. No one can be certain today whether we shall be able to arrive at fully agreed recommendations.

But it is certainly worth while to make such an attempt. I am looking forward to the intellectual adventure which we are engaging in here. And I do believe that we shall be in a position to make a constructive contribution.

If we do that, the Commission might be able to lessen the spirit of confrontation which exists between North and South today and replace it with a higher sense of mutual interest and cooperative endeavour.

One of our colleagues from the developing world in a letter to me used these words: At other places one has been pre-occupied with means. We should concentrate on ultimate ends, which



is to say: fulfilling first the basic needs of all in the Third World, within a framework of orderly growth in both developing and industrialised nations.

I do not have any unrealistic expectations, but I am not without hope that we have the required degree of optimism necessary to work collectively on a report that may make easier the difficult tasks of governments and international organizations.

Let me add that -- in my view -- our report should be concise and understandable to the ordinary informed citizen of the world.

It is customary on occasions as this to give participants some memento of the meeting. As it happens one of my fellow countrymen has produced a new map - a projection for the Planet Earth on which we all, rich and poor, must live.

Instead of the conventional map with Europe at the centre and giving two thirds of the space to the Northern Hemisphere, this map pays attention to the area where two thirds of the world's population lives. It is the problems of this Third World, (or should I say Two Thirds World?) which concern us on this Commission and which will dominate political and economic events at least for the rest of this century.

I am convinced that we in this country and in Europe have more to contribute than just a new map; many of us have learned through harsh experience how to look at the world and our little region in a new way.

The example of what has been called Ostpolitik has shown that it is possible to change the character of a conflict and find within it those elements of mutual interest which can produce acceptable common solutions. Basic differences remain, but new areas of cooperation, if properly exploited, even influence the ideological scene.



In any case, I am prepared to engage myself for a "Südpolitik" in order to reconcile at least parts of the North-South economic confrontation.

We may have some additional experience to draw on. The evolution of our industrialised societies since the 19th Century has generally been in the direction of greater political and material participation by wider and longer sections of society -- as I believe -- to the benefit of the whole national community.

The lesson that more equal distribution of growth and rights was in the interest of all -- had to be learned by the more conservative elements of the society.

Now this principle in a number of countries is widely accepted and its stabilizing functions for society are generally appreciated.

Perhaps we can see here one of the paths forward for the greater involvement of more and more of the poorer nations in an increasingly co-responsible global society?

Even on our new world map it will not be easy to find this path forward nor to guide peoples or Governments along it. In the present economic situation of the industrialised countries, with rather high figures of unemployment, far-reaching structural changes, protection of the national economy at whatever cost to the

international economy is very tempting. But that is the way Europe and North America went almost 50 years ago; it bankrupted the colonial world, it ruined North America and it brought Europe down in flames.

This time we dare not make similar, but much more dangerous mistakes.

We must seek out the mutual interests within our own industrial communities, and with the non-industrialised developing world.

Those mutual interests may be hard to find, the necessary cooperation will be difficult to achieve, but this Commission



can hold up a torch and could give a  
lead.

It is with this hope in mind that again  
I welcome you here for our first meeting.



836/2/68

## OFFICE MEMORANDUM

TO: Mr. William Clark, VPE

DATE: October 2, 1978

FROM: H. Martin Koelle, EUR *HMK.*SUBJECT: Brandt Commission1. Mr. Brandt's more optimistic views on poverty in the year 2000

A mild controversy has arisen between Willy Brandt and the World Bank. In a recent newspaper interview to Kölner Stadt-Anzeiger (Cologne's major newspaper with a circulation of 250,000), Willy Brandt said that in contrast to the latest estimates of World Bank experts in their Development Report, he does not think it an illusion that hunger will be eliminated substantially by the end of the century. I attach a copy of the interview itself which appeared in the inside pages of the paper, and a copy of the front page pointer which says that Brandt contradicted the pessimistic views of the World Bank according to which there will still be 600 million poor people in the year 2000, compared with 800 million absolutely poor today.

Other aspects Mr. Brandt dealt with in the interview are the role of foreign investments as an "engine of progress", protectionism, the need for LDCs to increase trade among themselves, German efforts to increase the ODA performance, the increasing involvement of the Eastern Bloc in the North-South Dialogue, and the urgency of a mutual interest strategy "which I have established as the main orientation for my Commission". As to technological adaptation and progress, Mr. Brandt said that one had to be careful "not to sound as if one said (to LDCs) 'just stay put on your present level. We want to help you a little bit to eliminate hunger and disease, but beyond that, God has created the world in such a way that some will reach a high level and others will live on a very low level.' ... It must not look as if we wanted to cut off developing countries from the most advanced scientific achievements."

After the publication of this interview, Mr. Brandt has received a fair amount of letters particularly on the statement regarding his controversy with the World Bank. In these letters, the question was asked whether it was wise to contradict as well-founded an opinion as that of the World Bank. Mr. Brandt replied that it was the job of a politician to draw people's attention to the fact that a more optimistic interpretation of current trends and figures was also possible. Ansgar Skriver, one of the most thoughtful German development journalists, mentioned in a radio commentary the differences between Mr. Brandt and Mr. McNamara, and he asked the rhetorical question "which of the two prognoses is more appropriate to provoke action?".

./.

2. Timing of the publication of the Brandt Commission Report

In the same newspaper interview Mr. Brandt said that he hoped his Commission would present its report in the early autumn of 1979. This represents a certain slippage since earlier plans had set a publication date sometime in the summer of 1979. Fritz Fischer was not happy with Mr. Brandt's mentioning publicly the early autumn date, and he now hopes that the Commission will be able to avoid any further slippage. For the World Bank's Development Report 1979, however, this slippage would be rather favorable because the danger of a clash of publication dates of the two reports now seems to be averted.

Mr. Fischer feels it would be useful for the Commission members to receive the World Development Report 1979 when they meet for their final session in Vienna early July 1979. This would help to bring the Brandt Commission members completely up to date.

Mr. Fischer admitted that the early July meeting of the Brandt Commission might not really be the last one. He said that perhaps an editorial subcommittee would be formed in early July which would have to meet a few times to finalize the report and would perhaps have to call for a closing meeting of the Commission.

Attachment

HMK/br



# Brandt: Sieg über Hunger möglich

Gespräch mit dem „Stadt-Anzeiger“

Von unserem Redakteur Hans Gerlach

Bonn — Es müsse keine illusionäre Zielsetzung sein, „bis Ende des Jahrhunderts den Hunger in der Welt im wesentlichen zu beseitigen“. Dies erklärte in einem Gespräch mit dem „Kölner Stadt-Anzeiger“ der SPD-Vorsitzende Willy Brandt, der zugleich Vorsitzender der „Unabhängigen Kommission für Internationale Entwicklungsfragen“ ist.

Brandt widersprach damit der pessimistischeren Auffassung der Weltbank, deren Präsident McNamara den früheren Bundeskanzler für die Bildung dieser Kommission und für deren Vorsitz gewonnen hatte. Nach einem Bericht der Weltbank werden im Jahr 2000 noch immer 600 Millionen Menschen, gegenüber heute 800 Millionen, in „absoluter Armut“ leben.

Besonders betonte Brandt die negativen Folgen, die eine Fortsetzung des kostspieligen Wettrennens für die dringend notwendige Verstärkung der wirtschaftlichen Zusammenarbeit zwischen Industriestaaten und Entwicklungsländern habe. Weiter meinte der SPD-Chef, man dürfe nicht nur auf die „schrecklichen Gefahren“ hinweisen, die drohen, wenn die großen sozialen Unterschiede zwischen den Staaten fortbestehen oder gar noch anwachsen. Vielmehr sei es „nötig und möglich nachzuweisen, daß es sich lohnen kann“, die Zusammenarbeit zwischen Nord und Süd zu verstärken.

Daß es künftig allgemein we-

niger um Hilfe als um Zusammenarbeit und Abstimmung der Interessen der Industrie- und der Entwicklungsländer gehe, unterstrich Brandt immer wieder.

Auch in den Entwicklungsländern wird im übrigen nach Ansicht des SPD-Vorsitzenden immer deutlicher die Fragwürdigkeit eines übertriebenen industriellen Fortschritts erkannt.

Brandt wies ferner auf das Interesse Moskaus und der Staaten „zwischen der Bundesrepublik und der Sowjetunion“ hin.



## Das Interview mit Willy Brandt über die Aufgaben seiner

### Kommission für Entwicklungsfragen

Die „Brandt-Kommission“ — offizieller Name „Unabhängige Kommission für internationale Entwicklungsfragen“ — besteht jetzt gut neun Monate. Sie arbeitet unabhängig — auch finanziell — von Regierungen, internationalen Organisationen und auch von der Weltbank. Deren Präsident, der frühere US-Verteidigungsminister McNamara, war der geistige Vater der Kommission und hatte Brandt im Januar

1977 den Vorsitz angetragen. Von ihren 17 ordentlichen Mitgliedern stammen zehn aus Entwicklungsländern. In etwa einem Jahr soll der Öffentlichkeit der Abschlußbericht vorliegen. Unser Redaktionsmitglied sprach mit Willy Brandt über den gegenwärtigen Stand der Arbeit der Nord-Süd-Kommission und über die Zukunft der Entwicklungspolitik in den hochindustrialisierten Ländern der Erde.

# Armut in der Welt ebenso gefährlich wie Wettrüsten

„Nicht von oben herab festlegen, was das Wohl anderer Völker ist“



BIS ZUR JAHRTAUSENDWENDE sollen die Empfehlungen im Bericht der Nord-Süd-Kommission reichen: Ihr Vorsitzender Brandt, flankiert von den Mitgliedern Hamad aus Kuwait (links im Bild) und Botero Mantoya aus Kolumbien, Ende 1977 in Bonn. Bild: dpa



**H**err Brandt, Sie hatten eben eine Sitzung Ihrer Kommission in den USA und haben vorher eine längere Rundreise durch Industrie- und Entwicklungsländer abgeschlossen. Das Echo auf Ihre Gedanken und Vorschläge war nach allen Berichten sehr positiv. Entspricht dem das Klima in der Kommission?

Brandt: In erster Linie war die Rundreise, von der Sie sprechen, eine Reise zu den Regierungen, und da kann ich den positiven Eindruck nur bestätigen, nicht zuletzt für die EG-Staaten. Das überrascht mich gar nicht so sehr. Mehr überrascht — und zwar angenehm — hat mich dagegen, daß Regierungen der Dritten Welt, die zunächst sehr zurückhaltend waren, sich inzwischen recht positiv äußern. Seinerzeit haben sie gefragt: Handelt es sich nicht bei der „Unabhängigen Kommission“ um ein Manöver von Kreisen der Industriewelt, die Zeit gewinnen und den in den nächsten Jahren notwendigen Entscheidungen ausweichen wollen? Dieser Verdacht ist weg.

## Klima des Vertrauens

In der Kommission selbst hat sich in dem dreiviertel Jahr seit ihrer Bildung ein sachliches, vertrauensvolles Arbeitsklima entwickelt. Dies ist noch keine Garantie dafür, daß der Bericht schließlich wirklich einstimmig gebilligt wird. Das nehme ich zwar an. Aber wenn's nicht anders geht, dann akzeptiere ich lieber zu dem einen oder anderen Punkt ein paar abweichende Voten, als einen zu verwässerten Kompromiß in den Bericht hineinzunehmen.

Sie sagen, der Verdacht eines Verzögerungsversuchs sei ausgeräumt. Bedeutet dies, daß bis zum Abschluß Ihrer Arbeit zumindest auf dieser internationalen Ebene eine gewisse Pause eintritt?

Brandt: Ich habe allen Beteiligten, als wir 1977 angingen, gesagt, wir können uns nicht an die Stelle der Regierungen setzen. Deren Verhandlungen müssen weitergehen, und keiner soll sich hinter uns verstecken. Wenn wir im Frühherbst 1979 mit unseren Empfehlungen kommen; dann wird daraus auch klar ersichtlich werden, daß wir nun nicht ein Rezept anbieten für das, was in den nächsten zwei oder drei Jahren zu geschehen hat. Wir werden dem auch nicht ausweichen; aber der Bericht wird die achtziger Jahre und die beiden Jahrzehnte bis zum Jahr 2000 ins Auge fassen.

## Garantien auf Zeit

Wie sieht die Kommission, wie sehen Sie das schwierige Problem der Garantien für Investitionen der Industrie-Staaten in den Entwicklungsländern?

Brandt: Man kann keinem Land Investitionen aufzwingen. Außerdem hat jedes Land das Recht, über seine eigene wirtschaftliche und soziale Entwicklung zu entscheiden. Wer aber ausländische Hilfe oder Investitionsmittel in Anspruch nimmt, wird sich über die Bedingungen verständigen müssen. Das erschöpft sich aber nicht nur in der Frage, wie diese Mittel zu garantieren sind.

Vielmehr haben die, die in den Genuß solcher Mittel kommen, auch den Wunsch, daß solche Investitionen nicht die Sozialstruktur in dem betreffenden Land einseitig beeinflussen. So wird man sich auch damit vertraut machen müssen, daß in sehr vielen Ländern Kapital-Garantien nur für einen bestimmten Zeitraum gegeben werden. Dann müssen die, die investieren möchten, entscheiden, ob sie es unter diesen Bedingungen noch wollen oder nicht. Jedenfalls kann unsere Wirtschaftsordnung, die sich bei uns bewährt hat, nicht auf dem Umweg über Kapitalhilfe in andere Länder exportiert werden.

Wie beurteilen Sie die Rolle der trans- oder multinationalen Gesellschaften?

Brandt: Die Multinationalen

sind ja, objektiv gesehen, Maschinen des Fortschritts in der technisch-ökonomischen Entwicklung. Sie sind aber auch in der Versuchung, ihre gewaltige Kapitalmacht einzusetzen, so daß dadurch legitime Ansprüche und Wünsche einer Regierung und eines Volkes unter die Räder kommen können.

Wie ist heute, was den Begriff Fortschritt angeht, der Bewußtseinsstand in den Entwicklungsländern und bei deren Vertretern in Ihrer Kommission? Glaubt man noch so sehr wie früher an den Nutzen großer Investitionen für Werke wie beispielsweise das Stahlwerk Rourkela in Indien?

Brandt: Wir müssen nur aufpassen, daß unser Beitrag zu dieser Diskussion sich nicht anhört, als wollten wir sagen: Bleibt ihr nur schön auf eurem Niveau, wir wollen euch ein bißchen helfen, daß der Hunger beseitigt wird und die Seuchen. Aber im übrigen hat Gott die Welt eigentlich so erschaffen, daß einige auf einem sehr hohen und andere auf einem sehr niedrigen Niveau leben.

In den Entwicklungsländern geht die Diskussion in die Richtung, nicht jede Art von Technologie übernehmen zu wollen, sondern sich nach angewandten Technologien umzuschauen. Aber das darf nicht so aussehen, als wollten wir sie abschneiden vom Zugang zu modernen und auch modernsten Erkenntnissen der Wissenschaft.

Wenn man einmal unterstellt, daß es gilt, gemeinsame menschliche Bedürfnisse sicherzustellen und nicht Millionen von Menschen den Hungertod erleiden zu lassen, dann ist ja auch nicht von uns vorzuschreiben, daß jedes Volk denselben Preis für dieselben wirtschaftlichen Ergebnisse zahlen müsse.

Die Chinesen beispielsweise, dieses Riesenvolk auf einem gar nicht so riesigen Territorium, sind angehalten worden, durch sehr harte Arbeit und ihre Art von Sozialordnung ihre grundlegenden menschlichen Bedürfnisse zu befriedigen. Es ist nicht sicher, daß andere Völker mit anderem geschichtlichen, philosophischen und religiösen Hintergrund bereit sind, denselben Preis zu bezahlen.

Auf Afrika bezogen — wie kommen wir dazu, zu sagen, die Kinder, müßten auch dort so lange wie bei uns zur Schule gehen? Man darf nicht von oben herab schematisch festlegen

wollen, was das Wohl anderer Völker ist.

Wie steht es mit der Sorge der Entwicklungsländer um den ~~Hang zur Abkapselung~~ zur Protektionismus bei den Industriestaaten?

Brandt: Da sind wir noch mitten in unseren Überlegungen. Im Augenblick beschäftigt uns besonders der Handel zwischen den Entwicklungsländern. Wenn man da weiterkommt, wird der Druck, den die Ausführenden der Entwicklungsländer auf die Industriestaaten ausüben, etwas vermindert. So könnten beispielsweise die Verbrauchsgüter, die ein größeres afrikanisches Land herstellt und die für uns nicht sehr attraktiv sind, dies für den indischen Markt durchaus noch oder schon sein. Für die Industrieländer entsteht daraus die Frage, ob sie zugunsten des Handels zwischen den Entwicklungsländern auf bestimmte Positionen in ihren Ausfuhren verzichten können.

Die Wirtschaftsgeschichte zeigt, daß Protektionismus sich nie vorteilhaft ausgezahlt hat. Wir haben nach dem zweiten Weltkrieg gesehen, wie gut uns ein relativ freier Welthandel bekommen ist und wie sehr in-



Internationaler Wettbewerb zur Modernisierung unserer Wirtschaft beigetragen hat.

Auch ohne Pessimismus: bezweifle ich, daß die westliche Industriewelt aus sich selbst heraus über all die Antreiberkräfte verfügt, die unseren Kindern und Enkeln Vollbeschäftigung bei angemessenem Lebensstandard sichert. Vielmehr müssen dazu die internationalen ökonomischen Beziehungen verstärkt werden. Dies ist ein Ausschnitt aus dem Prinzip der Beiderseitigkeit der Interessen, das sich meine Kommission als Haupt-Orientierung gegeben hat.

*Wie ist Ihre Einstellung zur Haltung der Bundesrepublik in diesem Bereich?*

**Brandt:** Ich glaube, wir müssen erkennen, daß Entwicklungshilfe immer mehr zu Entwicklungspolitik geworden ist. Hilfe bleibt wichtig. Sie bleibt es auch innerhalb der einzelnen Gesellschaften, auch bei uns. Doch die Frage ist nicht, wie wird unsere gute D-Mark verschenkt, sondern ob wir beim Handel oder auf dem Gebiet der Rohstoffe so zusammenarbeiten, daß auch unsere eigenen künftigen Interessen dadurch befriedigt werden.

## Deutsche Reaktion ungewiß

Das heißt, allgemein gesehen, darauf hinzuwirken, daß nicht aus dem zunehmenden Gegensatz zwischen Arm und Reich in der Welt eines Tages Mord und Totschlag erwachsen. Die Menschheit wird in den kommenden zwei Jahrzehnten ja nicht nur dadurch bedroht, daß das Wetttrüben außer Kontrolle gerät, sondern auch durch ein Fortbestehen — wenn nicht gar Anwachsen — großer sozialer Unterschiede zwischen den Staaten und auch innerhalb derselben.

Konkret gesehen besteht das gemeinsame Interesse beispielsweise darin, daß die Entwicklungsländer bei den Rohstoffen stabile Preise haben möchten, während wir an einem möglichst sicheren Zugang zu solchen Rohstoffen interessiert sind. Das muß man auf einen Nenner bringen.

*Wie wollen Sie der deutschen Öffentlichkeit Ihre Gedanken und Vorschläge näherbringen?*

**Brandt:** Zuviel Ablehnung vermute ich nicht, aber ein Zögern wird es geben. Wenn ein solcher Bericht einen Sinn haben soll, werden wir ja auch etwas über das hinausgehen müssen, was eine Regierung heute für möglich hält. Beispielsweise haben die Staaten vor Jahr und Tag beschlossen, daß für die sogenannte öffentliche Hilfe 0,7 Prozent des Sozialprodukts aufgewandt werden sollte. Wir liegen nicht einmal bei der Hälfte. Die Amerikaner stehen nicht besser da, wohl aber Skandinavien und Holländer. Wir müssen uns hier mehr anstrengen.

Unsere steuerzahlende Öffentlichkeit muß aber auch verstehen, daß dies nicht weggeorfenes Geld ist. Arabische Partner sagen mir jetzt häufig: Für jede 100 Mark, die die Bundesrepublik an öffentlicher Hilfe gibt, bekommt sie, grob gerechnet, 80 Mark zurück in Form von Industrieaufträgen. Für 100 Mark, die Bonn der Weltbank zur Verfügung stellt, fließen auf diese Art mehr als 100 Mark zurück. Dagegen erhielten sie, die arabischen Olländer, für Ent-

wicklungshilfe praktisch nichts zurück; denn sie haben keine Industrie, die Waren liefern kann.

*Wieweit muß man zusätzlich zur Aufklärung auch noch die Angst zu Hilfe nehmen, also die Angst vor den Folgen ungenügender Zusammenarbeit zwischen Nord und Süd? Oder kann man auch auf die Hoffnung hinweisen, daß das Ringen um einen Ausgleich zwischen Entwicklungsländern und Industriestaaten vielleicht mithilft, die Spannungen zwischen Ost und West abzubauen?*

**Brandt:** Sicher ist es richtig, den Menschen — gerade was die Entwicklungspolitik angeht — nicht nur zu sagen, welche schrecklichen Gefahren drohen können; und es ist nötig und möglich nachzuweisen, daß es sich lohnen kann, die Zusammenarbeit zu verstärken.

Schon heute mischen sich Nord-Süd- und Ost-West-Konflikte miteinander. Keiner von uns kann sagen, welcher der beiden in den nächsten Jahren dominieren wird. Aber wenn die Menschheit gegen Ende des nächsten Jahrzehnts noch ungefähr so existiert wie heute, dann ist in einer solchen Annahme bereits eingeschlossen, daß es bis dahin bestimmte rüstungsbegrenzende Maßnahmen gegeben haben wird.

Kommt es dazu nicht, können selbst hochentwickelte Wirtschaften zusammenbrechen. Gelingt es aber, dann stellt sich die Frage: Wie kann man wenigstens einen Teil der bisher für Rüstungen aufgewendeten Mittel umlenken in Entwicklungspolitik? Davon sind wir allerdings noch weit entfernt.

*Wie sehen Sie die Chancen, die Sowjetunion stärker in die Nord-Süd-Zusammenarbeit einzuspannen und auch auf diese Weise Kontakte zu schaffen, die helfen, das Mißtrauen abzubauen?*

**Brandt:** Bisher haben sich sowjetische Politiker einer ersten Diskussion dieses Themas entzogen mit dem Argument: Wir sind nicht verantwortlich für das Erbe des Imperialismus. Außerdem fügen sie hinzu — und das ist gar nicht so von der Hand zu weisen —, sie hätten ja bereits im Bereich der heutigen Sowjetunion ein gutes Stück Entwicklungsarbeit geleistet.

Mit ihrer ersten These kommen die Russen aber nicht mehr durch. Die Zahl derer in der



Entwicklungswelt wird immer größer, die sagen: Wenn von einer Nord-Süd-Zusammenarbeit die Rede ist, verstehen wir darunter nicht nur das Verhältnis des Südens zum Westen des Nordens, sondern zum Norden gehört auch die Sowjetunion. Das weiß man auch in Moskau.

Wie steht es aber mit den wirtschaftlichen Interessen der Sowjetunion? Vielleicht könnte sie sich isolieren; manche sagen das. Sie hat fast alle Rohstoffe selbst. Doch ich halte es für sehr unwahrscheinlich, daß dies passiert. Allerdings ist das Interesse an der künftigen Gestaltung der Weltwirtschaft heute in den Staaten zwischen der Bundesrepublik Deutschland und der Sowjetunion viel stärker. Viele Verantwortliche dort stehen seit der Ölkrise ähnlichen Problemen gegenüber wie der Westen.

Auch sie fragen sich: Unter welchen Bedingungen wird man in Zukunft Waren absetzen können? Wird man Rohstoffe, wird man Energie bekommen? Wie wird ein neues Weltwährungssystem aussehen? Wird es universal sein und — anders als das System nach dem Ende des zweiten Weltkrieges — auch die Staatshandelsländer umfassen? Einige sind ja schon dabei: Jugoslawien und Rumänien etwa.

## Blockfreie mahnen

Jedenfalls wird in unserem Bericht zum Verhältnis zwischen Entwicklungsländern und kommunistischen Staaten kein weißer Fleck bleiben. Inzwischen ist mit der Sowjetunion ein Austausch unter Fachleuten angelaufen.

Bezeichnend für die Entwicklung ist ja auch, daß auf der letzten Konferenz der Blockfreien in Belgrad — unter Einschluß von Jugoslawien, Nordkorea, Kuba und anderen — zum erstenmal in gleicher Weise sowohl die sogenannten kapitalistischen, wie auch die sogenannten sozialistischen Staaten gemahnt wurden. So hieß es im Abschlußkommuniqué: Wir erwarten höhere Leistungen von beiden Gruppen der Industrieländer. Das wird auch der Sowjetunion zu denken geben.

*Taucht am Horizont Ihrer Überlegungen auch China auf?*

**Brandt:** Ja, schon deshalb, weil es auf seine Weise das Problem der grundlegenden Bedürfnisse gelöst hat. Die Menschen hungern nicht, sind ärztlich versorgt, die Kinder gehen zur Schule; und zerlumpt läuft auch niemand herum. Außerdem ist China dabei, sich international stärker zu engagieren. Wir haben die Chinesen auch bereits über unsere Arbeit informiert und möchten ihre Erfahrungen einbeziehen; wir möchten aber alles vermeiden, was hier oder anderswo so aussieht, als ob wir Kräfte gegeneinander ausspielen wollten.

## Licht am Tunnelende?

*Sehen Sie, zunächst was die Arbeit Ihrer Kommission angeht, sozusagen Licht am Ende des Tunnels? Können Sie sich darüber hinaus eine Entwicklung vorstellen, durch die im Laufe der nächsten zehn oder zwanzig Jahre die Nord-Süd-Probleme zumindest entschärft werden? Und sind Sie immer noch froh, daß Sie diese Aufgabe übernommen haben?*

**Brandt:** Ich glaube, ich konnte mich dem nicht entziehen. Wenn man einen Beitrag zur Entschärfung eines solchen großen Konflikts leisten kann, dann ist das schon etwas wert. Ich hoffe, wir können nicht nur den Entscheidungsträgern, sondern auch einer intelligenten öffentlichen Meinung in den verschiedenen Teilen der Welt etwas an die Hand geben, was es leichter macht, Lösungen zu finden.

Im übrigen meine ich — im Widerspruch zu den letzten Schätzungen der Fachleute der Weltbank in deren Entwicklungsbericht —, daß es keine illusionäre Zielsetzung sein muß, bis Ende des Jahrhunderts den Hunger in der Welt im wesentlichen zu beseitigen.

836/2/67

October 3, 1978

Dear Mr. Fischer,

Your letter of September 11 addressed to Mr. Clark has arrived whilst both he and Mr. McNamara are out of the country. So I will keep the letter and enclosures safely for their return, and I know they will be very pleased to have this material.

I hope all goes well with you.

Yours sincerely,

Susan Frampton

Mr. Fritz Fischer  
Independent Commission on International  
Development Issues  
Ollenhauerstrasse 1  
D-5300 Bonn  
Federal Republic of Germany

sf

WDC Brandt

836/2/66

October 3, 1978

Dear Rainer:

On the subject of Dr. Peters' map and since Herr Brandt might bring up the subject when he visits here late this month, could you please send us the "project description" mentioned at the end of Fischer's letter to you dated September 7.

With that document, we could go to the cartographic division here and get some idea about costs. If we are asked formally to consider supporting the project, we had better get some idea of the cost.

It was nice having you over here for a while. I do hope you found your visit a good and profitable one.

Yours sincerely,

L. Peter Chatenay

Mr. Rainer Steckhan  
Director  
European Office  
World Bank  
66 Avenue d'Iena  
75116 Paris, France

cc: Mr. Merriam

LPChatenay:mmh



10.23

William

The ripple effect of the  
Bradt Commission.

Here is a note from  
the UNDP Res Rep in Lesotho  
(12/11/81) to government  
relaying questions for the  
UNDP submission to  
ICID on technical  
assistance needs.

? Is Nimrod brought it  
back from his last  
mission.



I - Brandt  
can file, if

There is room

---

W.C.

836/2/65

5 October, 1978

Dear Mr. Monyake,

Subject: UNDP Presentation to the Brandt Commission on International Development Issues

The United Nations Development Programme is currently preparing a document for submission to the above-mentioned Commission. This document will, inter alia, seek to demonstrate the considerable unmet needs for technical co-operation in developing countries.

UNDP New York has instructed this office to seek Government's urgent assistance in this matter. In this connexion I would be deeply grateful to meet with the appropriate Government authorities as soon as possible to obtain the following information:

1. Has Government undertaken estimate technical co-operation requirements; and if so, how recently? Could a copy be made available to UNDP urgently? And what is nature of estimate, e.g. is it a list of desirable technical co-operation projects? Is further list available of which these requirements have not been met by available supply of technical co-operation?
2. Has Government recently undertaken either economy wide or specific sector technical/professional manpower survey indicating shortfall in supply of manpower and/or unmet need for post-secondary education and training?
3. Does Government have list of priority institutions, e.g. public administration, public enterprises, planning and statistics services, training and management institutions, where establishment or strenghtening is held up because of inadequate technical co-operation.
4. Is there a list of technical/management services awaiting further technical co-operation to achieve up-grading, e.g. in such areas as standards and quality control, repair and maintenance, and extension services?

Mr. A.M. Monyake,  
PS Planning and Statistics,  
Central Planning and Development Office,  
Maseru.

5. Is there a list of unmet needs for research and development particularly in the area of adaptation of technologies?
6. Is there a list of needed feasibility studies held up for lack of technical co-operation?

Recognising that Government may have all or some of the above-mentioned information, but may not wish to make it available we would appreciate receiving as much information as possible and assure Government that all information will be held strictly confidential and that only illustrative data will be used in the report to the Commission.

Yours sincerely,

David McAdams  
Resident Representative

836/2/64

FULL RATE CABLE

FRITZ FISCHER  
SPD 1 OLLENHANERSTR  
BONN

(Germany)

HAVE TALKED TO MCNAMARA ABOUT YOUR END OCTOBER VISIT STOP HE IS NOW  
NOT GOING AWAY SUNDAY TWENTYEIGHT AND IF BRANDT COULD AND WOULD LIKE WE  
COULD ALL LUNCH TOGETHER IN HIS HOME AND HAVE WHOLE AFTERNOON FREE STOP  
I BELIEVE THIS WOULD BE OPTIMUM BUT PLEASE ENSURE IT SUITS WB AND IF  
IT DOES INFORM CAIO KOCHWESER WHO RETURNS WITH MCNAMARA OCTOBER FIFTEENTH  
STOP I ONLY RETURN TWENTYTHIRD STOP PLEASE UNDERSTAND BOTH OPTIONS  
SUNDAY AND MONDAY REMAIN OPEN STOP IF YOU CHOOSE SUNDAY I HOPE WE CAN  
USE MONDAY AFTERNOON TO SEE HAQ COMMA CHENERY ETC IN BANK STOP ALL BEST

WILLIAM CLARK

Mr William Clark  
V.P. - External Relations  
The World Bank

October 10, 1978

WC:mh

INCOMING MAIL UNIT

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# RECEIVED

October 19 1978 OCT 19 AM 10: 21

INCOMING MAIL UNIT

The World Bank  
A.B. - Executive Director  
Mr. William Clark

WILLIAM CLARK

SEE MONDAY AFTERNOON TO SEE HOW COMB CHIEF ETC IN BANK JOB VIT REGI  
SUNDAY AND MONDAY BEHIND OPEN JOB IS YOU SHOULD SUNDAY I HOPE WE CAN  
JOB I ONLY BELIEVE JAMESLINDHED JOB PLEASE UNDERSTAND BOTH OPTIONS  
IT DOES INFORM CIVIC KOSMOSER AND BELIEVE WITH MCMANUS OCTOBER FIFTEEN  
I BELIEVE THIS MIGHT BE OFFERED FOR PLEASE MAKE IT SALES ME AND IS  
COULD VIT TRISH JOSEPH IN HIS HOME AND HAVE ANOTHER AFTERNOON FREE JOB  
NOT GOING ANY SUNDAY JAMESLINDHED AND IS BEHIND COULD AND MIGHT LIKE ME  
HAVE LISTED TO MCMANUS ABOUT YOUR END OCTOBER AT THE JOB HE IS NOW

(continued)

FROM

REP J O'CONNOR/MS/LE

WILLIAM CLARK

WILLIAM CLARK

239/1/91

836/2/63

## OFFICE MEMORANDUM

TO: Mr. William Clark

DATE: October 13, 1978

FROM: L. Peter Chatenay

SUBJECT: Herr Brandt's Visit, October 30; Item for the Agenda

This is to note that the subject of the map devised by Dr. Peters of Bremen may be brought up by Herr Brandt during his visit. In his first official statement as Chairman of ICIDI, he referred to the map. Fritz Fischer has written to Steckhan about it, indicating that it "merits careful, benevolent studies by institutions which might be able to advance such projects". Herr Brandt, says Fischer, will also attempt to interest Unesco in the project.

We now have the project description which I have shown to Duke Merriam. No cost estimate is mentioned and I have no basis on which to indicate what the Bank might be asked to contribute.

cc: Mr. Merriam with papers

LPChatenay:mmh

836/2/62

Le 18 octobre 1978

Monsieur Edgar Pisani  
Sénateur  
Palais du Luxembourg  
75006 Paris, France


Monsieur le Sénateur,

Je me permets de vous écrire à titre personnel m'appuyant sur vos rapports d'autrefois avec mon père, Victor Chatenay, pour vous dire que si vous aviez besoin de renseignements sur la politique ou les opérations de la Banque Mondiale ou de contacts avec certains de ses spécialistes pour votre participation aux travaux de la Commission Brandt, je suis à votre disposition.

A la Banque, je suis le conseiller de William Clark, vice-président pour les relations extérieures, qui a été le bras droit de M. McNamara pour le lancement de la commission. J'ai donc participé directement à ces préparatifs. Avec M. Clark, M. McNamara porte le plus grand intérêt à la façon dont la commission progresse. Car, pour une organisation comme la nôtre qui doit opérer par nécessité en harmonie avec le Nord et avec le Sud, les difficultés présentes sont une gêne et un souci croissants.

J'ai été heureux d'apprendre que vous aviez accepté de prendre la place de M. Mendès-France. Cet été, à la Romanerie où mon père vit maintenant dans une retraite complète, il m'a parlé de vous avec la sympathie qu'il vous porte toujours.

Je vous prie de croire, Monsieur le Sénateur, à l'expression de ma haute considération.

Louis Pierre Chatenay   
Conseiller, Relations extérieures

LPC/mk-



S. 836/2/60  
Did you say  
yes?  
Pls do.  
25-  
Accepted  
10/27

October 20, 1978

Mr. William Clark  
Vice President - External Relations  
The World Bank  
1818 H Street, NW  
Washington, DC 20433

Dear William:

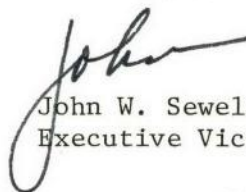
On Tuesday, October 31, the Overseas Development Council will host a luncheon in honor of His Excellency Willy Brandt. Mr. Brandt will be discussing the activities of the Brandt Commission--the Independent Commission on International Development Issues (ICIDI). Mr. William D. Rogers of Arnold and Porter, and a member of ODC's Board of Directors, will chair the luncheon.

The Independent Commission on International Development Issues, a private commission of leaders drawn from developed and developing countries, was organized last fall to explore the past record of world development, the prospects for the world economy, and to assess how North-South relations might be improved in the 1980s so as to benefit both rich and poor countries. The Commission came into existence as a result of a suggestion by Robert McNamara, but is entirely independent. It will make its final report in the fall of 1979. The Commission includes among its members four former heads of state. The American members are Katharine Graham, publisher of the Washington Post, and Peter G. Peterson, Chairman of Lehman Brothers.

The luncheon will be held here at the Council beginning at noon and will break no later than 2:00 p.m. Will you please call Nancy Scully at 234-8701 to let us know whether or not you will attend.

I hope you will be able to join us.

Sincerely yours,



John W. Sewell  
Executive Vice President

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*[Handwritten signature]*

UNITED STATES DEPARTMENT OF AGRICULTURE  
WASHINGTON, D.C. 20250

I hope you will be able to join me

at the 1978-79 National Conference on the  
Future of the American West, which will be held  
at the University of Colorado at Boulder from  
September 10-14, 1978.

Program details:

Target of the "American West" and "West of  
the Mountains" are the American West and  
the West of the Mountains. The conference  
will be held at the University of Colorado  
at Boulder from September 10-14, 1978.  
The conference will be held at the  
University of Colorado at Boulder from  
September 10-14, 1978. The conference  
will be held at the University of Colorado  
at Boulder from September 10-14, 1978.

For more information

contact the National Conference on the  
Future of the American West, which will be  
held at the University of Colorado at Boulder  
from September 10-14, 1978. For more  
information, contact the National Conference  
on the Future of the American West.

Very truly yours,

Director  
National Conference on the Future of the American West  
University of Colorado at Boulder  
Boulder, Colorado 80502

OVERSEAS DEVELOPMENT COUNCIL

*[Handwritten notes and signatures]*  
11/10/78  
11/10/78  
11/10/78

836/2/59

## OFFICE MEMORANDUM

TO: Mr. William Clark

DATE: October 20, 1978

FROM: L. Peter Chatenay

SUBJECT: Willy Brandt's Visit on October 29/30; His Interest in Dr. Peters' Map Project

1. You may remember that Fritz Fischer wrote to Steckhan and said that Brandt hoped the Bank (and Unesco) would pay "careful, benevolent" attention to Dr. Peters' project and might "be able to advance" the project. We now have the project description here. It shows that the map of the world, as prepared by Dr. Peters, is significantly different from standard maps (e.g., the Bank's Atlas, see copy attached) and presents the size of countries more equitably. The result is a South which, compared to the North, is vastly larger contrary to what standard mapping shows.

2. Merriam has seen Fischer's letter about the project. We have no idea, at this time, about its cost nor is there an indication about the amount the Bank might be asked to contribute. My own view is that, in an area such as this, Unesco should be the "lead agency" in the UN family. If the Bank were to assist, it might be to fill a small gap which Unesco could not plug if Mr. McNamara felt that, for public relations' sake, we should agree to help.

cc: Mr. Merriam

LPChatenay:mmh

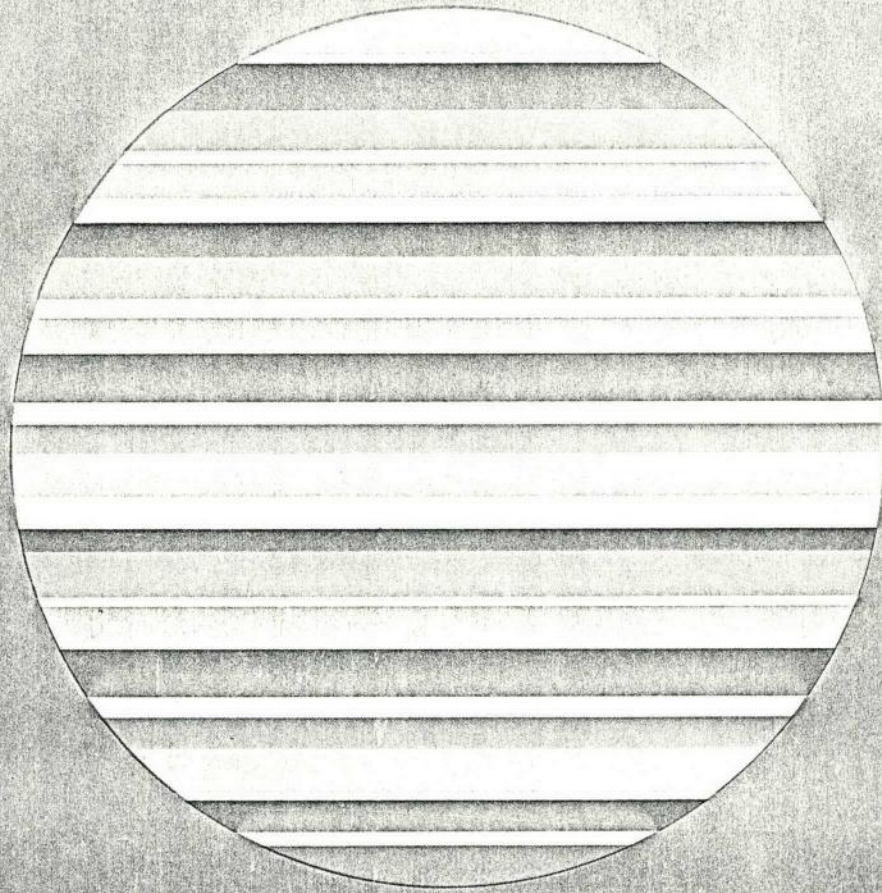
*Mr Merriam's talk,*



WORLD BANK

# atlas

POPULATION, PER CAPITA PRODUCT,  
AND GROWTH RATES



WORLD BANK ATLAS 1977

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Page 4 - 5: Mexico 1,9 Mill.km<sup>2</sup>  
Alasca 1,5 Mill.km<sup>2</sup>

Page 6 - 7: Brazil 8,5 Mill.km<sup>2</sup>  
Greenland 2,1 Mill.km<sup>2</sup>

Page 8 - 9: USSR 22 Mill.km<sup>2</sup>  
Africa 30 Mill.km<sup>2</sup>

Page 16-17: India 3,1 Mill.km<sup>2</sup>  
Mongolia 1,5 Mill.km<sup>2</sup>

Page 18-19: Turkey 780.000 km<sup>2</sup>  
Sweden 449.000 km<sup>2</sup>

published by the World Bank/1977



836/2/58

October 24, 1978

Dear Fritz,

I hope the Embassy (which is very possessive and wants to know just whom W.B. will see in the Bank at what minute) has not filled up all spare time.

I now plan to return from the country on Saturday evening for dinner at Kay Graham's home. But I very much hope you both could lunch at my home (Chinese cooking) on Sunday with a few of the best of the Bank, e.g. Mahbub ul Haq, Hollis Chenery etc. We could walk in the Arboretum in the afternoon which is wonderful at this time of year.

Yours sincerely,

William Clark

Mr. Fritz Fischer  
U.N. Plaza Hotel  
New York, N.Y.

WDClark:sf



836/2/57

Mr. Robert S. McNamara

October 25, 1978

William Clark

Brief on Brandt

First of all what does Brandt hope and expect to get out of this meeting, to which he attaches great importance? He does not want to seem to lose any of his independence from the Bank, but he does want to make sure that you and he know each other's minds and do not arrive accidentally at different conclusions. He does not expect that you will approve of all his priorities, but he does believe that you appointed him to give an independent European based world view of the North/South relationship.

In my opinion (if I may say that phrase once and for all) you should begin by seeking to draw out Brandt on the timetable and program of his report. When may it be ready (it doesn't really matter when in 1979, my guess is October); what format? how long? how composed (does he still plan to use a writer such as Anthony Sampson; will it be a committee document or a Brandt document)? Who is it addressed to in reality? (Later you could ask how he actually intends to reach effectively that chosen audience).

Secondly you should draw him out on the contribution made by the Secretariat, does he get everything he wants from the Bank and especially D.P.S.? How are the Commissioners shaking down as a team? Are the extremes finding common ground?

I expect you will find that Brandt feels that there is a broad consensus emerging, and you could try to find out what it is. I know he feels that Ramphal is a key swing vote, which he believes will eventually swing into the column supporting a new international economic order very much broader and less dogmatic than The NIEO. (He equally believes that Drag is a lost cause).

You could enquire about how Brandt sees his compromise economic order emerging. I think he agrees with the Bank's trade policies, but I wonder whether the Commission has any clear idea of the relative value of trade in raw materials and manufactured goods. I expect it is in this area that there is greatest need for clarification of view points. You will have noticed that Brandt took a more optimistic view of the year 2000 than the W.D.R. I suspect this was a political ploy, rather than any deep disagreement with the Bank.

But this also raises an issue we need to get more in to the open; the future role of the World Bank. There has been a lot of casual discussion of the Bank's present and future role in the less formal partsoof the meetings - especially in the West African (Mali) meeting where several of the African ministers who were invited to



testify spoke of the over great power of the Bank, and its use of it to influence their policies. This struck a welcoming chord (surprisingly) in some of the European Commissioners, and there was quite a lot of talk in the corridors (and with such as Bob Cassen of the Secretariat) about giving more power to the regional Banks, or decentralising and splitting up the World Bank - anyway curbing its monopoly. This in turn has got caught up in the current Giscard-Schmidt attempt to build a New European Economic order, which has distinctly anti-American overtones. Let's not exaggerate the menace but a lot of thoughtful Europeans are thinking of an alternative to the World Bank on a semi-regional basis through Lomé, and a similar regional I.M.F. in the E.M.S. However unfairly you are regarded as being too caught up in fighting the Americans, and not enough in consulting with the Europeans.

You should try to probe this and give your political judgment - which I believe to be that the greatest danger is a permanent diminution of the U.S. interest in International Institutions. Also you might refer to the possibility of your visit to Germany which Fritz Fischer raised on behalf of Brandt.

Finally I expect that Brandt will make it clear at some point that the central theme of the Report is to be the Common Interest of Industrialised and developing countries in economic growth. (This is Egon Bahr's political sine qua non for any increase in German Aid). It might be worth while probing this version of interdependence to see if it has been thoroughly thought through.

I attach the latest set of papers from the Secretariat, which has just reached my desk from Fritz Fischer. (I now know that there is a regular flow from the Secretariat to Attila Karaosmanoglu whom you designated as the contact point). The one most worth a glance is 'Mutual Interest' by Bob Cassen. I have sidelined it. Of particular interest is para 74 which lists some of the recommendations which are expected. You may wish to hear Brandt on such things as 'Disarmament' and 'Cooperation with the Eastern Bloc'. (I would hope both of you would agree that they were highly desirable but we could not wait till they were achieved).

WDC:ark:sf





836/2/56

MAC NEIL/LEHRER REPORT

OCTOBER 27, 1978

(SIGNATURE MUSIC)

ROBERT MAC NEIL: Good evening.

More bad economic news. A quickened inflation rate in September and a growing trade deficit today caused a further decline in the value of the dollar. In Frankfurt, for instance, it reached a new low, one dollar to 1.75 Marks. This symbolic, but continuing challenge to the supremacy of the American economy comes just as the United States is being asked to show fresh and vigorous leadership comparable to the Marshal Plans days, to alleviate the economic plight of the Third World.

The man making that demand is the West German Statesman, Willy Brandt.

Tonight: his views of the world that faces us.

Jim.

JIM LENRER: Robin, it's an appropriate coincidence that we talked to Willy Brandt tonight. Today, Egyptian President Anwar Sadat, and Israeli Prime Minister Menachem Begin were announced as joint winners of the Nobel Peace Prize. In 1971 the recipient was Willy Brandt. Honored for making the first agreement and gestures which led to the end of the Cold War, the detente between East and West. These and other achievements of Willy Brandt as the leader of West Germany, and as an international figure are well known here in the United States, but how he got there isn't.



He has never made any secret, for instance, that he was born the illegitimate son of a shop girl, his grandfather was a truck driver, his stepfather a bricklayer. As a teenager he fought the Nazis, and was forced finally to flee the country. He lived and studied in Norway, returning to Germany after the war to enter politics with the Socialist/ Democratic Party. He moved up through the party ranks in the city government of Berlin, becoming the mayor of Berlin in 1957.

It was during his 9 year tenure as mayor that the Berlin Wall was erected by the East German Communists, that President Kennedy came and delivered his famous, "I am A Berliner" speech.

He became Chancellor of the Federal Republic of Germany in 1969, resigning in 1974 after his administration was shaken by the discovery that one of his chief aides was a East German spy.

He remains the head of the Social Democratic Party, but most of his time and energy in recent months has been devoted to improving relations between the developing and industrialized nations of the world.

He chairs an international commission which is to come up with a report and recommendations on the subject, next year.

Willy Brandt 'is in New York with Robin.

Robin.

MAC NEIL: Mr. Brandt, welcome.

First of all, on the present economic news, why, viewed from your perspective is the dollar in such trouble.

WILLY BRANDT: Well, this is -- if I take for example, the relationship between the dollar and the Dutch Mark, it was not fair when we had to pay 4 Marks for the dollar(?). The right rate would have been somewhere between what it was then, and what it is now. In other words, I'm convinced that we are going to face a new strengthening of the dollars. The American economy is stronger than what it looks now. And we have seen examples that one can overcome difficulties of this kind. I mean, in my own country, we had an inflation rate of 7; we brought it down to below 3. I'm afraid it will go up to 3.5 again next year, but we will have some more(?) growth, some less unemployment, and what I believe in is, that one should follow the road which was discussed at the Bonn Summit this summer. Things do not work from one month to the other, but if we get a good coordinated policy of the Western industrialized countries, I think this also will be favorable for the balance of payments situation, and the monetary situation of the United States.



MAC NEIL: The Bonn Summit called upon Mr. Carter, among other things, and he promised to reduce some of the dependence of this country on foreign oil. The President of the Common Market Commission today asked Mr. Carter to do even more drastic things than the present energy bill permits. Do you feel that the United States is doing enough, again(?) as much as Europe would like us(?) to do to try and solve problems of inflation, growth and oil dependency?

BRANDT: Well, it's very difficult to make statements on that, because of us who follow things know how difficult it is to get agreement on a program. Personally I believe that the President of the European Commission is right, that it would be good to go on reducing the dependency upon so much oil from abroad.

MAC NEIL: And in practical terms, in this country, that would mean the President instituting his own controls on imports or taxes, would you be in favor of doing that? Is the situation that dangerous, you think...

BRANDT: ...I think something along that line should be done, yes.

MAC NEIL: Uh-hmm.

You said in a speech last night that the present international economic situation was failing the developed countries of the world. Could you tell us how it is; is the dollar a symptom of that failure, or is...

BRANDT: ...No ... (OVERTALK) ... what we have to deal with are various crisis. We have the disruption of the old -- what would be the international monetary system -- was established after World War II. We have the energy problems, we have employment problems, we have five, six, different -- but to a certain degree, interconnected problems which all together have brought about the structural crisis of the world economy. And my belief is, (GARBLED) with what many people still think, that speeding up the process of development abroad is -- will -- may become one of the main instrument also to solve our own problems. But Europe, in any case, I'm convinced that our new jobs, jobs for our young people, and their children to a high degree depend upon new markets.

MAC NEIL: Well, we're going to come to your concern for the Third World in a second. But before we do, can I just ask you this: Can the developed world, the United States, Western Europe and Japan, can it do anything dramatic about helping the Third World until it can come up with a system that can resolve these problems, inflation, unemployment, and trade dun(?) balances.



BRANDT: We cannot wait -- I mean, we cannot say let's postpone those problems which have to do with our relationship with the (UNCLEAR) until we have solved our problem. But it is encouraging to learn that our partners, many of our partners now within the development(?) understand that it is also to their interest that we solve our problems. So there certainly is an interconnection and I think that we would be able to do more than we can do today, had we come through these difficult problems which we are faced with almost every day.

MAC NEIL: Well, thank you.

Jim.

LEHRER: All right, now to Mr. Brandt's major interest right now. The Independent Commission for National Development Problems. Well, that's the official name for the group he heads right now. It started its work last year. It's mission, chart a way to close the gap between the rich and the poor nations of the world, the so-called North/South dilemma. The facts are fairly well known. The industrialized nations, North America, Europe, the Soviet Union and Japan have an annual gross national product of nearly 5 billion dollars.

The South, Latin America, Africa and Asia, excluding Japan, have a combined 1.2 billion gross national product, and yet nearly 3 billion of the people in the world live in the Southern Hemisphere compared to just over 1 billion in the North.

Mr. Brandt, you have said that unless that gap is closed, that this could lead to war. Do you mean that literally?

BRANDT: Even literally, this could happen, if the gap widens it could lead to unrest, unrest could lead to irresponsible actions. This could lead to at least regional-wise, perhaps even greater conflicts. so I think that development policy also is probably peace-preserving policy. I believe that.

LEHRER: Well, when you use a word like development, or cooperation between the North and the South, are those code words for money, is that what you're talking about?

BRANDT: No, no. Not only. I'm thinking about the package(?), just to give you an example, the poor countries, especially those who have unprocessed raw materials, they want more stabilized prices, in excess(?) to those raw materials, so there is a mutuality of interest. And we can take a number of examples. Now, aid in the old fashioned sense of the rich, helping the poor, is only part of the problem. My commission is working under the headline of discovering, exploring, and spelling out the mutuality of interests.



LEHRER: It is really then -- is it really comparable then to the Marshal Plan after World War II?

BRANDT: No, it is not.

LEHRER: Ummm.

BRANDT: Because the Marshal Plan had to do with a situation where Europe was damaged, factories destroyed, cities destroyed, and what not. But, Europe had skilled workers and technicians and administrators. What was needed was to bring labor and capital together, while in the developing world and most of the countries there, the process of a certain transfer of resources has to take place at the same time when education, training has to go on.

So therefore, I have not used the word Marshal Plan, for what now has to be done. But I want the United States and Canada and Europe and Japan to understand there is one similarity, and that is, that a reasonable program to counteract these disparities in the long -- as a long term process, that even has a midterm process, will be in our own interests. The Marshall Plan obviously was (GARBLED) Europeans, but it was also a good program for the United States.

LEHRER: Well, your commission specifically, there've been a lot of commissions and meetings, and dialogues and papers and books written on this subject. None of them frankly, Mr. Brandt, I think you'll probably agree with me, come to much.

BRANDT: Yes.

LEHRER: Why is your commission going to be any different, do you think?

BRANDT: I am not sure that I am the right one to answer that question. I, of course I have to be aware of the danger that we may be able to do, not much more than just to publish another book. If that should happen, I would say greater damage has been done to mankind, than just to add another book to the library of publications on development problems. No, I believe that -- hope at least -- and we will work hard to put something on paper which may influence decision makers, both in the industrialized and in the developing countries, and also to impress upon the enlightened public opinion.

Remember Winston Churchill, (GARBLED) perhaps we spoke of the time after World War II, I may point to the fact that Winston Churchill's main contribution to World War II, and to the victory (UNCLEAR) there were. Words sometimes can influence the historic development.

LEHRER: Do you see though -- do you see that to be the commission's major achievement when it's over, or do you feel that your commission has clout to follow up on those words?



BRANDT: No. We will, of course we cannot compete with governments. We can present recommendations, and then hope that others will pick them up. We will finish our work when we have published our report. But we will, if I may add this -- I mentioned decision-makers in both industrialized and developing countries, because if we, for example, say that famine, hunger must be fought, and I think it can be fought towards the end of the century. This demands certain actions which are to be taken in the richer countries, but it also demands something from those who are responsible to the developing countries, and I think by now, many of our friends there are ready(?) to understand that both parts have to do their job in various fields.

LEHRER: All right. Thank you.

Robin.

MAC NEIL: Yes, Mr. Brandt, how important is it to bring the communist world into this effort? To improve the lot of the Third World?

BRANDT: You see, well, Lester Pearson, the Canadian, made his report 10 years ago, he just mentioned that there was a problem. He said he had not been able to deal with it, but there was a problem. If I now speak to, at least part of the leaders, in the Third World, they say that they do not like the idea that what is called the North/South dialogue goes on being a dialogue between the South and the Western part of the (UNCLEAR). They say that even the confidence of the (UNCLEAR) recently in Belgrade, said, including those developing countries, who call themselves socialists, their partners should be the industrialized countries. Either they are capitalists or they are communists, as I prefer to say. Some people say socialists.

Now -- and at the same time, I think that there is a growing understanding, especially among some of the East European leaders, the Poles, the Hungarians and others, that they must show interest in those problems, which have to do with their position in future international trade. They are interested in a future international monetary system, not to talk about the energy crisis. If you speak to an energy minister today, you will see that his experience does not differ very much from the experience of an energy minister in Brussels or The Hague. So there is a growing understanding, and I think it is fair, also, that the developing countries expect something, not only the West or the North.

MAC NEIL: Why are there no commissioners from communist countries on your commission?

BRANDT: This would have been too early, because until a year ago, and sometimes even now, we (UNCLEAR) and some of them still say that they are not responsible for, what they call the heritage



of colonialism, but this is an interpretation of the past. The developing countries want answers to the questions which lie ahead of us. And therefore, I think we must try to convince the Eastern leaders, some of them I think work on this. We must convince the others that it is in their own interests to participate in serious discussion on, as I said, future divisions(?) of trade with the other parts of the world, energy, monetary problems, etcetera.

MAC NEIL: You said in a recent interview that the younger elite in the Soviet Union were more oriented towards integrating the Russian economy, with the economies of the rest of the world. What evidence do you have for that? Is that just conversational, anecdotal evidence or...

BRANDT: We had some of all these (UNCLEAR) the Soviet Union, this summer, they spoke to experts from the institutes, some from the ministry, and my colleagues -- I wasn't present myself, but my colleagues when they returned, they told me that they were very much impressed, because they did not have to quarrel about figures, about prospects for the 10(?) years, and when they spoke off the record, they found a good deal of understanding; for the necessity(?) looked from the other's point of view, the necessity of a higher degree of integration, international, economic integration.

MAC NEIL: Which could have quite an effect on our economies, as well as the Third World economies, if the new generation of leadership in the Soviet Union saw it that way.

BRANDT: It could, yes.

MAC NEIL: You don't think much?

BRANDT: Well, I'm not sure that it will move fast enough, because I'm a very much believer in the necessity of discounting things, and wherever possible, making arrangements with the Soviet Union, because this is necessary in the interests of world peace, but at the same time, I know it's a very conservative regime they have, and they take much longer time -- they take many other places(?), before they make decisions.

MAC NEIL: Well, thank you.

Jim.

LEHRER: Speaking of that regime, Mr. Brandt, how would you assess the health of detente, generally, now?

BRANDT: It hasn't been too good, but -- and I mean -- in Europe, we have achieved a higher degree of great relations, cultural relations. Looked upon from the German point of view I could add -- I should add that we have -- the agreements which have made -- have been to the advantage of many thousands of people who have been able to move, where they could not before. But there we are.



The conference in Belgrade recently, the first follow-up conference of the Helsinki Conference on European Cooperation, and Security, didn't carry(?) very far, and so I think not much more will happen now, before SALT II has come to conclusion. Personally, I think there's a good chance that you may get -- I say the Americans and the Russians, may get a second SALT Agreement, agreement by otherwise(?) on the limitations of strategic armaments. If this happens within the next few months, then personally, I think that there may be a chance in another year's time from there on, to get a first limited result of the Vienna Talks, which have been going on for five years now, the Vienna Talks on certain limitations of troops and armaments at the center of Europe. If this then happens, this could create better pre-conditions for the second follow-up of the Helsinki Conference 1980, in Madrid.

LEHRER: You've had a lot of dealings with Chairman Brezhnev through the years. Is he genuinely interested in reducing the arms race, reducing tension between East and West, or is there back there somewhere, a desire on his part, the Soviet's part to gain an advantage?

BRANDT: It's true that I have discussed these problems with him several times, and I was in government, I have also had the opportunity to discuss things with him later on. Our latest meeting was in May this year. I think he is a convinced Communist, otherwith I think he couldn't be at the top of the Russian setup, but I'm convinced he wants peace. Perhaps one should add that if one makes it easy for him, and others, they would explore the situation, but I think he wants peace.

When I started to speak with him about these things, what he told me then sounded almost like what Senator Humphrey told me at the same time; just to give you an idea about how he expressed his views when one spoke -- well, alone, or just with a few other people around.

LEHRER: Well, the debate over the SALT II treaty has already begun here in the United States, and some of it at least, revolves around the age-old post war question of whether or not the Soviet Union and the Communists can be trusted. Can they?

BRANDT: One must negotiate without illusions. One must always make it sure that situations -- agreements could not be easily exploited, but I think it is reasonable to base one's policy upon the suggestion that also the Russian leaders are interested in the survival of mankind.

LEHRER: Here we were, a man who had fostered a whole new spirit of cooperation with the communist world, and yet they put a spy right in your office. Did that give you second thoughts about detente, or do you still have second thoughts as a result of that experience?



BRANDT: It was a shock at the time, but the shock had more to do with my lack of ability to understand people. I mean, I thought I would have been able to know if I could rely upon someone or not. I couldn't. The Russians by the way, didn't put him there, there were others who did so.

No, it did not influence my basic judgements on the necessity of reducing tensions. It wasn't very polite they did it, but I think we live in a world where there are agents various places, and I couldn't exclude in a given situation, someone from the West would have been in the neighborhood of the (GARBLED) in the Eastern part of Germany.

LEHRER: All right.

Robin.

MAC NEIL: Turning back to Western Europe, next spring is going to be the first elections to a European parliament. You are going to be a candidate in these elections?

BRANDT: I have to. I hesitated because the election campaign will go on, when I still have to work on my report. The (GARBLED) issues. I have to run because my party wants me to run, the chancellor can not, so the party leader must. And so we will have those elections in June, and then start work in the autumn of next year...

MAC NEIL: You've been, it's suggested, would make a very suitable first President of that Parliament if there were a Social Democrat majority, if you were the leader of the socialist international, and leader of the German Democrats. Is that a job you'd like?

BRANDT: No, but let me say there will be no Social Democrat in majority, no political group will have a majority, and without -- but without being arrogant, I think I could say, I could get the majority, because some of my Christian Democrat friends have told me that they would vote for me. Not those from Germany, but those from some of the other countries. Those in the community know I will not be a candidate for President of the European Parliament, because I have to take care, and I have responsibilities at home, and even if I'm through with the North/South issue, I have to participate in a number of other international activities, so I will limit my activities in the European Parliament, but to participate in some of the more important debates.

MAC NEIL: Well, thank you very much for joining us this evening Mr. Brandt.

Goodnight Jim.

LEHRER: Goodnight Robin.

MAC NEIL: That's all for tonight. We'll be back on Monday night.

I'm Robert MacNeil. Goodnight.

(SIGNATURE MUSIC)





836/2/55

THE GERMAN MARSHALL FUND OF THE UNITED STATES  
A MEMORIAL TO THE MARSHALL PLAN

11 Dupont Circle, N.W., Washington, D.C. 20036 (202) 797-6430  
Cable: GMFUS Telex: 248329 CEIP

October 30, 1978

Mr. Göran Ohlin  
Independent Commission on International  
Development Issues  
Rue de Moillebeau 56  
CH-1209  
Geneva

Dear Mr. Ohlin:

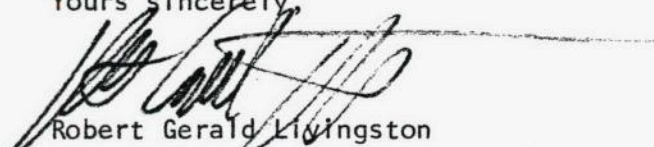
During Mr. Brandt's visit to Washington this past weekend, I had occasion to talk with some of his aides about our grant to the Commission and about the weakness of the dollar which is diminishing the grant's effectiveness.

This is to let you know that our trustees would, I believe, be willing to consider a modest supplemental grant for purposes of disseminating the Commission's final report. Under "dissemination" one might think of meetings at which the report would be discussed, travel costs to such meetings, publication costs, and possibly television or radio costs.

If you wish to apply for such a grant, we will need a carefully costed-out and fully justified project proposal. It should outline in reasonably specific terms what the grant monies might be applied to. The Fund should like to consider such an application at its Board of Trustees meeting in Berlin June 11-12, 1979, and, if it could be arranged, to have a member of the Commission attend the meeting in order to discuss the application.

I hope that we can discuss this with you at your convenience.

Yours sincerely,



Robert Gerald Livingston

cc: Mr. Brandt  
Mr. William Clark ✓  
Mr. Fritz Fischer

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UNITED STATES DEPARTMENT OF JUSTICE

*[Handwritten initials or notes]*



836/2/54

EDGARD PISANI

*Sénateur de la Haute-Marne*

N/réf : 906/10/78

Monsieur Louis Pierre CHATENAY  
Conseiller Relations Extérieures  
THE WORLD BANK  
1818 H Street  
NW WASHINGTON  
D.C. 20433

Valpuiseaux, le 31 octobre 1978

Cher Monsieur,

Je garde de votre père un très bon et très chaleureux souvenir. Vous lui transmettez mes pensées respectueuses.

J'ai été très content de recevoir la lettre que vous m'avez adressée, et sachant le rôle que vous jouez je serai heureux de vous rencontrer.

En effet, je participe avec beaucoup de ferveur au groupe Willy BRANDT, et j'ai été chargé par lui d'approfondir particulièrement le nouvel ordre alimentaire mondial.

Je n'ai pas l'occasion d'aller à New York dans les mois prochains. En revanche vous venez sûrement en France. Pourriez vous avoir la gentillesse de me faire signe de façon à ce que nous organisions une rencontre. Cette rencontre serait souhaitable soit en décembre, soit en janvier, car j'ai l'impression que les travaux du groupe BRANDT prendront leur orientation définitive lors de la rencontre qui doit avoir lieu fin février quelque part en Amérique du Sud ou en Arabie Saoudite.

En l'état présent des choses je peux dire que Monsieur BRANDT fera un effort considérable pour présenter un document substantiel et pour le "bien vendre".

Je peux dire que les hommes qu'il a réunis sont de haute qualité, et qu'ils sont de très grande bonne volonté. Ils ne plaident pas là un dossier connu, ils tentent de se renouveler.

Mais je peux dire aussi que nous n'en sommes pas encore arrivés au stade de la créativité, et que aucun concept vraiment nouveau n'a fait son apparition.

Je ne suis pas inquiet, je suis loin d'être découragé ; je suis impatient qu'un débat s'engage qui permette de créer des concepts nouveaux.

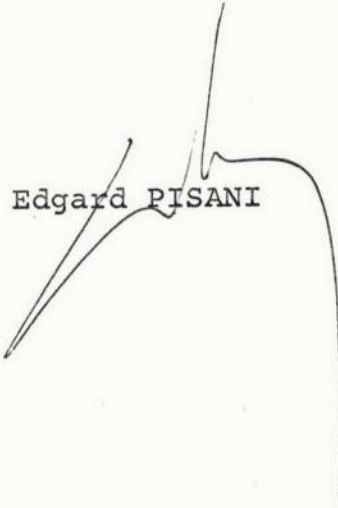
Mais nous dirons plus à ce sujet lorsque nous nous rencontrerons.

Je vous enverrai, à titre personnel évidemment, la note que j'ai l'intention de présenter à la réunion de KUALA LUMPUR, d'ici quelques semaines.

Je serais content de recueillir vos observations.

Veillez agréer, Cher Monsieur, l'assurance de ma considération distinguée.

Edgard PISANI



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836/2/54

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2754 WILLIAM CLARK

DECEMBER 18 WILL BE WILLY BRANDT'S 65TH BIRTHDAY. I THOUGHT  
I'D LET YOU KNOW AS EARLY AS NOW IN CASE ANYTHING NEEDS TO BE  
PREPARED FOR THAT EVENT. REGARDS

KOELLE



*Willy Brandt*

836/2/53  
BONN, ~~DEU~~ November 13, 1978  
BUNDESHAUS  
TEL. 16-

Mr. William Clark  
Vice President  
World Bank  
1818 H Street N.W.

Washington, D.C. 20433 / U.S.A.

Dear Mr. Clark,

back in Bonn, I would like to thank you very much for kindly having prepared some meetings in Washington for me. I had been looking forward to having interesting discussions and also to learning from your experience with the World Bank Development Report. But "force majeure" kept me from meeting you and the others - this time.

I hope, therefore, that we can come together on another occasion, and perhaps your itinerary might permit a "side-step" to Bonn in the foreseeable future.

With best regards,

Yours sincerely,



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**ROUTING SLIP**

Date  
Nov. 21, 1978

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1. Mr. McNamara ✓

2. Mr. Clark ✓

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Per Our Conversation

Full Report

Recommendation

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Signature

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Send On

Remarks

Caio Koch-Weser

From



570

836/2/52

Willy Brandt

BONN, ~~DEM~~ November 13, 1978  
BUNDESHAUS  
TEL. 16-

Mr. Robert S. McNamara  
President of the  
World Bank  
1818 H Street, N.W.  
  
Washington, D.C. 20433 / U.S.A.

Dear Mr. McNamara,

I had hoped so much to have an extensive exchange of views on the subject to which we are both so dedicated. But unfortunately, my temporary illness prevented us from doing so.

Thus, I hope very much that we come together on another occasion in the foreseeable future. If you plan to come to Europe within the next few months I would be glad to welcome you here in Bonn. Otherwise, we have to look for another opportunity.

Although it was not possible this time to have talks in Washington, I could, however, have interesting discussions with a number of people within the UN scenery in New York, and I was very comforted by the specific interest that UN Secretary-General Waldheim took in the work of the Commission. I am looking very much forward to the envisaged continuation of our exchange of views.

All in all, I think our work is on a promising track. The climate of political debate within the Commission is very constructive and stimulating, the benevolent interest from outside and the assistance of organizations are greater than expected and the signs of more convergence of international considerations steadily growing.

With best wishes and warmest regards,

Yours sincerely,



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 Come & visit him - Nat - am post issue  
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736/2/51

lundi le 20 novembre 1978

Monsieur le Sénateur,

J'ai transmis votre souvenir à mon père à Angers. Il en sera très touché, je le sais.

Je vous remercie pour votre lettre du 31 octobre et vais essayer d'arranger un voyage en France dans la seconde moitié de janvier dans l'espoir de vous rencontrer. En attendant, je demande à mes collègues du département Agriculture - dont un angevin du nom de Fallour - de me préparer un dossier pour que je puisse, n'étant aucunement spécialiste, vous apporter certains points de vue sur le sujet du nouvel ordre alimentaire mondial.

Notre vice-président, William Clark, a été fort intéressé par ce que je lui ai dit, en privé, de votre "impatience" tant que le vrai débat n'est pas engagé sur le sujet majeur dont vous vous occupez. L'initiative de Montamara n'était pas, vous vous en doutez, de créer un nouveau cercle d'études mais, très exactement, d'obtenir qu'un groupe de personnalités fasse avancer le débat vers des solutions acceptables sur le plan international et sur le plan national.

Malheureusement, les récentes élections en Amérique ne portent pas à l'optimisme.



Avec une Amérique frigidiste, le Nord aura  
beaucoup de mal à contribuer au dialogue  
avec le Sud de façon concrète. Pour une  
organisation comme la Banque Mondiale,  
tellement marquée par l'Amérique, les  
lendemains paraissent sombres. Il. R. Tamara  
espère certainement que le groupe Brandt  
trouvera des formules et proposera des politiques  
qui donneront à l'Amérique la foi et l'enthousiasme.

Je vous prie, Monsieur le Sénateur,  
de bien vouloir agréer l'assurance de ma  
haute considération.

Louis Pierre Chateaugay

836/2/50

November 22, 1978

Dear Herr Brandt,

I was so very sorry that we did not meet in Washington owing to your illness, and am even more distressed to hear that a recurrence of it has prevented you going to the Malaysia meeting.

This is primarily a note of best wishes for a speedy return to health. But may I also add my very warm thanks for your sending me a copy of your book, which I am reading on my current set of travels.

With all good wishes,

Yours sincerely,

William Clark

Herr Willy Brandt  
President, Sozialdemokratische Partei  
Deutschlands  
Erich-Ollenhauer-Haus  
Ollenhauerstr 1,  
5300 Bonn, Federal Republic of Germany

WDClark:sf

# ICIDI

INDEPENDENT COMMISSION ON  
INTERNATIONAL DEVELOPMENT ISSUES

Bonn, December 13, 1978

836/2/49

Office of the Chairman

Mr. William Clark  
Vice President  
World Bank  
1818 H Street, N.W.

Washington, D.C. 20433 / U.S.A.

*Cairo*  
*mid jan get there?*  
*WFF*

Dear William,

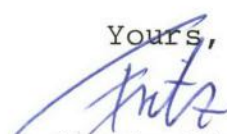
this is just to tell you that Mr. Brandt, who is still in hospital, was very moved by your kind letter of November 22 and has asked me to thank you for your good wishes.

I would like to add mine for a Merry Christmas and a Happy New Year, and I will get in touch with you to see whether we can come together in the course of the next weeks.

Enclosed I send you the text of a speech by Willy Brandt as well as an article of mine on the "Brandt Commission". I hope that my mother tongue will not prevent you from taking a look at them.

With best regards,

Yours,



(Fritz Fischer)



ICIDI

INDEPENDENT COMMISSION ON  
INTERNATIONAL DEVELOPMENT ISSUES

born, December 13, 1918

Office of the Chairman

Mr. William Clark  
Vice President  
World Bank  
1815 H Street, N.W.

Washington, D.C. 20433 / U.S.A.

Dear William,

This is just to tell you that Mr. ...  
in hospital, was very ...  
and had asked me to ...

I would like to ...  
very busy ...  
whether we can ...

Indeed I ...  
as well as an ...  
hope that my ...  
a look at ...

Very best regards,

(Yvonne Fischer)

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PARIS, FRANCE

MESSAGE  
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BRANDT COMMISSION MEMBER RESPONSIBLE FOR DRAFTING CHAPTER ON

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14

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15

LATE JANUARY. FALLOUX EN ROUTE TO LIBERIA MIGHT TRANSIT PARIS

16

AROUND JANUARY 20. REGARDS CHATENAY

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AUTHORIZED BY (Name and Signature):

International Relations

cc: Mr. William Clark

DEPARTMENT:

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## OFFICE MEMORANDUM

736/2/47

TO : Mr. John E. Merriam, IPA

DATE : December 18, 1978

FROM : H. Martin Koelle, EUR HMK.

SUBJECT : Brandt Commission

Please find attached a two-part series of articles on the Brandt Commission which appeared in Neue Zürcher Zeitung of December 13 and 15. The articles are detailed and thoroughly researched, but certainly not sensational. At any rate, they show that the more important papers in Europe are keeping an eye on the Brandt Commission, which seems to indicate that there is likely to be good press coverage once the Commission publishes its report.

The NZZ series says that the most burning question for the Commission to deal with is the access of Third World countries to industrialized countries' markets. In a working paper, the Commission's secretariat says that trade restrictions are the main obstacle to economic progress. The article concludes by saying that the part of the report dealing with trade policy will be awaited with particular interest.

Attachments

cc: Mr. William Clark

HMK/br



INCOMING TELEX

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Mr. Chatenay

836/2/46 SS  
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1978 DEC 21 PM 12:36  
COMMUNICATIONS DIVISION

DEC 21, 1978

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3174 CHATENAY

REYURTEL 2285 CONCERNING PISANI. PISANI WOULD WELCOME COMBINATION  
OF FRANCOIS FALLOUX VISIT, PREFERABLY JAN 25 OR 26 AND YOUR OWN  
VISIT PREFERABLY EARLY FEBRUARY.

REGARDS

STECKHAN

⊕

INTBAFRA WASH DC

INTBAFRA WASH DCTM

836/2/45

Mr. Leif Christoffersen

December 22, 1978

L. Peter Chatenay

Brandt Commission; Assistance to Mr. Edgar Pisani

1. Pisani, ex-minister of Agriculture in France, took over from Pierre Mendes-France on the Brandt Commission when PMF took ill. He is now a Senator. On the Commission, he is in charge of the chapter on the new international food order, I understand.

2. Pisani who was with my father in Parliament for years has let me know that he would like to "pick our brains" before, say, mid-February when he says the study period should end and preliminary conclusions should be drawn for the final report due sometime in the Fall of 1979.

3. I have asked Steckhan to try and get some information about the type of advice Pisani is after. But, at this time, it is most probably that he wants to bounce ideas off us, rather than seek new angles from us. On our side, we would like this contact to be quite informal.

4. That is why it would be appreciated if you could authorize Francois Falloux who is from Anjou and knows Pisani to stop off in Paris on his way to Liberia around January 20 to meet the senator. I believe Falloux, whose participation in the luncheon Chadenet gave for Pierre Uri the other day was very useful, thanks to Francois' descriptions of problems in the field, would be able to help Pisani clarify certain points and formulate any questions of a larger policy nature which I could follow up on later with Pisani, if necessary.

cc: Mr. William Clark

LPChatenay:mmh

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Mr. Chatenay ✓

Agri. & Rural Dev.

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91 CHATENAY COPY FALLOUX

1979 JAN -9 PM 1:51

COMMUNICATIONS DIVISION  
WAS VERY SLIGHTLY SURPRISED TO SEE CABLE FROM FALLOUX TO SENATOR  
PISANI SUGGESTING JAN 19 AND 20 FOR BRIEFING VISIT ALTHOUGH  
I HAD CABLED YOU ON DECEMBER 21 THAT SENATOR PISANI PREFERS JAN.  
25 AND 26.

MR PISANI NOW CONFIRMS HE IS UNAVAILABLE ON JAN 19 AND 20 BUT  
SAYS HE COULD MANAGE A 3 P.M. APPOINTMENT ON MONDAY 22ND. HE  
ALSO STILL HAS THE DATES OF 25 AND 26 FREE.

PLEASE ADVISE. · REGARDS

STECKHAN

EG



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CITY/COUNTRY

**PARIS, FRANCE**

MESSAGE  
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**FOR STECKHAN. REURCAB 91 ON PISANI. FALLOUXS SUGGESTED**

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**DATES CORRESPONDED UNSURPRISINGLY TO LIBERIA MISSION**

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**SCHEDULE, SEE MYCAB DECEMBER 18. HE WILL COMMUNICATE WITH**

7

**YOU WHETHER HE COULD TRANSIT PARIS ON RETURN FROM LIBERIA**

**EARLY FEBRUARY. MY TRAVEL PLANS REMAIN OPEN UNTIL WILLIAMS**

**RETURN. REGARDS CHATENAY**

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SUBJECT:

DRAFTED BY:

**LPChatenay:mmh**

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AUTHORIZED BY (Name and Signature):

**cc: Mr. Falloux**

**L. Peter Chatenay**

DEPARTMENT:

**International Relations**

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Mr. Chatenay

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COMMUNICATIONS OFFICE

cc Following 1/10  
who will follow up.

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INTBAFRA WASH DC

JAN 10 1979

IBRD B PARIS

94 CHATENAY

SINCE I WILL BE AWAY I BELIEVE IT IS BEST THAT YOU HANDLE DIRECT  
WITH PISANI. REGARDS

STECKHAN

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836/2/41

JAN 09 1979

IBRD B PARIS

91 CHATENAY COPY FALLOUX

WAS VERY SLIGHTLY SURPRISED TO SEE CABLE FROM FALLOUX TO SENATOR  
PISANI SUGGESTING JAN 19 AND 20 FOR BRIEFING VISIT ALTHOUGH  
I HAD CABLED YOU ON DECEMBER 21 THAT SENATOR PISANI PREFERS JAN.  
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ALSO STILL HAS THE DATES OF 25 AND 26 FREE.

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DATE: JANUARY 8, 1979

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*BRANDT COMMISSION*

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MONSIEUR EDGAR PISANI, SENATEUR, PALAIS DU LUXEMBOURG, PARIS VI,  
FRANCE

REF COMMISSION BRANDT PROBLEME ALIMENTAIRE MONDIAL. AI ETE DESIGNE  
AVEC PLAISIR POUR VOUS RENCONTRER ET DISCUTER PROBLEME CI-DESSUS.  
SERAI DE PASSAGE A PARIS 19 ET 20 DU MOIS COURANT. AIMERAIS SAVOIR  
SI DATES VOUS CONVIENNENT AINSI QUE LIEU ET HEURE DE RENDEZ-VOUS QUI  
VOUS ARRANGERAIENT. AIMERAIS AVOIR SI POSSIBLE VOTRE REPONSE  
RAPIDEMENT EN VUE DE PLANIFIER MISSION SUBSEQUENTE. HAUTE  
CONSIDERATION, FALLOUX, INTBAFRAD.

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SUBJECT:	RECEIVED BY:
Brandt Commission - World Food Problem	FFALLOUX:jo'd
CLEARANCES AND C/PY DISTRIBUTION:	AUTHORIZED BY: <i>[Signature]</i>
cc: Messrs. Steckhan, Chatenay, Christoffersen	DEPARTMENT: BATHoolen
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836/2/39

## OFFICE MEMORANDUM

TO: Mr. William Clark  
FROM: D.R. Clarke DR6  
SUBJECT: Conversation with Minister Jamal

DATE: January 25, 1979

Mr. McNamee

I took the opportunity of Minister Jamal's participation in the Jamaican Symposium of the IIED to have a brief conversation about his outlook on the Brandt Commission. Although very cautious in his comments, it was clear that Jamal was not at all optimistic about the prospects of the Brandt Commission. He referred to the divisions within the Commission itself and the problems of reconciling views of the more conservative members, such as Ted Heath and Kay Graham with the progressives like himself. In the final analysis there was the option of putting in a dissenting view in the report, but he hoped it would not come to this.

He is looking forward to the February meeting of the Brandt Commission in Europe to be decisive in giving some real thrust to the Commission's work. Brandt's presence at this meeting was clearly critical.

DRClarke:ls





Appendix I

Exerpts from: IMF, International Monetary Reform: Documents of the Committee of Twenty (Washington, D.C., 1974), pp. 7-22.

## Appendix I

### Outline of Reform

The Committee recognizes that, in view of present uncertainties related to inflation, the energy situation, and other unsettled conditions, it is not appropriate to attempt to determine the full details of all aspects of the future international monetary system, many of which can better be decided in the light of future developments. Part I of this Outline, The Reformed System, records the outcome of the Committee's discussion of international monetary reform and indicates the general direction in which the Committee believes that the system could evolve in the future. (A number of areas, within which agreement has not yet been reached on some important aspects, are treated more fully in the Annexes accompanying the Outline.) These Annexes have been prepared by the Chairman and Vice-Chairman of the Deputies to record the state of the discussion in these areas, and to provide illustrative schemes and operational detail. It is envisaged that arrangements in these areas, as they may be agreed, should be implemented as and when the Fund judges it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis with a view to subsequent agreement on full implementation. Part II of the Outline, Immediate Steps, sets out the steps which the Committee is agreed should be taken immediately.

#### Part I. The Reformed System

##### A. Introduction

1. It is agreed that there is need for a reformed world monetary order, based on cooperation and consultation within the framework of a strengthened International Monetary Fund, that will encourage the growth of world trade and employment, promote economic development, and help to avoid both inflation and deflation.
2. The main features of the international monetary reform will include:
  - (a) an effective and symmetrical adjustment process, including better functioning of the exchange rate mechanism, with the exchange rate regime based on stable but adjustable par values and with floating rates recognized as providing a useful technique in particular situations;
  - (b) cooperation in dealing with disequilibrating capital flows;
  - (c) the introduction of an appropriate form of convertibility for the settlement of imbalances, with symmetrical obligations on all countries;

- (d) better international management of global liquidity, with the SDR becoming the principal reserve asset and the role of gold and of reserve currencies being reduced;
- (e) consistency between arrangements for adjustment, convertibility, and global liquidity; and
- (f) the promotion of the net flow of real resources to developing countries.

3. It is recognized that the attainment of the purposes of the reform depends also upon arrangements for international trade, capital, investment, and development assistance, including the access of developing countries to markets in developed countries; and it is agreed that the principles which govern the international monetary system and arrangements in these related areas must be consistent.

B. Adjustment

4. There will be a better working of the adjustment process in which adequate methods to assure timely and effective balance of payments adjustment by both surplus and deficit countries will be assisted by improved international consultation in the Fund, including the use of objective indicators. To this end:

- (a) Countries will take such prompt and adequate adjustment action, domestic or external, as may be needed to avoid protracted payments imbalances. In choosing among different forms of adjustment action, countries will take into account repercussions on other countries as well as internal considerations.
- (b) Countries will aim to keep their official reserves within limits which will be internationally agreed from time to time in the Fund and which will be consistent with the volume of global liquidity. For this purpose reserve indicators will be established on a basis to be agreed in the Fund. (Possible operational provisions in connection with reserve indicators, with an illustrative scheme, are discussed in Annex I.)
- (c) Countries will apply adjustment measures in a manner designed to protect the net flow of real resources to developing countries, so as to help to achieve any internationally agreed resource transfer targets that they have adopted. Deficit countries in designing their adjustment measures will seek so far as possible not to reduce the access of developing countries and international development finance institutions to their financial markets, nor to reduce the volume of official development assistance or harden its terms and conditions. Surplus countries,



particularly those that are not meeting internationally agreed resource transfer targets that they have adopted, will seek so far as possible to increase aid and relax any restrictions on the access of developing countries and international development finance institutions to their financial markets.

5. Fund consultation and surveillance regarding the adjustment process will take place at two levels, the Executive Board and the Council to be established under paragraph 31, as follows:

- (a) The Council will oversee the continuing operation of the adjustment process. In this connection the Council will at regular intervals review developments in world payments and liquidity and the aggregate net flow of real resources to developing countries. In addition, it may examine particular cases of imbalance which in the light of their international repercussions are referred to it by the Executive Board or are considered by the Council to be of special significance.
- (b) The Executive Board will at regular intervals:
  - (i) survey the world payments situation in relation both to the general working of the adjustment process and to developments affecting global liquidity, with periodic consideration of balance of payments aims;
  - (ii) review the aggregate net flow of real resources to developing countries and its financing, and the consistency of countries' balance of payments aims and policies with any internationally agreed resource transfer targets that they have adopted; and
  - (iii) examine particular cases of imbalance that have significant international repercussions.

The Executive Board will as appropriate report to the Council on these matters.

6. Countries will become subject to examination under paragraph 5(b)(iii) if either:

- (a) there has been a disproportionate movement in their official reserves; or
- (b) in the judgment of the Managing Director, following informal soundings among Executive Directors, there is prima facie evidence that a country is facing significant imbalance, even though this is not indicated by a disproportionate movement in its reserves.

7. In the process of examination under paragraph 5(b)(iii), representatives of the country will be expected to comment on the country's economic prospects, including particularly its basic balance of payments position and prospects, on its external objectives, and on what domestic or external action, if any, it has taken or intends to take. An assessment by the Executive Board will establish whether there is a need for adjustment. In making its assessment, the Executive Board will take account of all relevant considerations, including the factors mentioned above; it will examine the consistency of the country's reserve and current account aims and policies with those of other countries, and will attach major importance to disproportionate movements of reserves. Account will be taken of the special characteristics of developing countries that make it difficult for them to achieve prompt adjustment without seriously derailing their long-term development programs. Following an assessment the Executive Board will, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance. A country in choosing between different forms of policy will take account of views expressed in the course of the examination on the form and size of policy action.

8. The Fund will continue to hold its normal consultations with member countries. In the course of these consultations the Executive Board will, inter alia, assess the country's payments performance on the same basis as in paragraph 7 and taking into account the factors mentioned there, and will, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance if it has not previously been so called upon under paragraph 7.

9. It is agreed that in the adjustment procedures described above separate arrangements will need to be made for a limited number of countries with large reserves deriving from depletable resources and with a low capacity to absorb imports.

10. Normally the provisions of paragraphs 7 and 8 for assessment supported by reserve indicators would be expected to lead to appropriate adjustment action. If they do not do so the Fund will have available graduated pressures to be applied to countries in large and persistent imbalance, whether surplus or deficit. The possibility of the activation of such pressures could of itself encourage timely and effective adjustment action. In considering the application of pressures the Fund will take into account the factors mentioned in paragraph 7. (The possible forms and methods of activation of graduated pressures are set out in Annex 2.)

#### The Exchange Rate Mechanism

11. In the reformed system exchange rates will continue to be a matter for international concern and consultation. Competitive depreciation or undervaluation will be avoided. The exchange rate mechanism will remain based on stable but adjustable par values, and countries should not make inappropriate par value changes. On the other hand, countries should, whether in surplus or deficit, make appropriate par value changes promptly. Changes in par values will continue to be subject to Fund



approval. The Fund may establish simplified procedures for approving small par value changes under appropriate safeguards.

12. Countries will undertake obligations to maintain specified maximum exchange rate margins for their currencies, except when authorized to adopt floating rates. The Fund will be empowered to vary the specified maximum margins on a qualified majority. It is agreed that it would be desirable that the system of exchange margins and intervention should be more symmetrical than that which existed in practice under the Bretton Woods system. (Two possible approaches to a more symmetrical intervention system are discussed in Annex 3.)

13. Countries may adopt floating rates in particular situations, subject to Fund authorization, surveillance, and review. Such authorization will relieve a country of its obligations with regard to the maintenance of specified margins mentioned in paragraph 12. Such authorization will be given in accordance with provisions to be agreed, on condition that the country undertakes to conform with agreed guidelines for conduct. Guidelines will also be established for intervention by other countries in a floating currency. Authorization to float may be withdrawn if the country fails to conform with the guidelines for conduct, or if the Fund decides that continued authorization to float would be inconsistent with the international interest. (Possible provisions for the authorization of floating and guidelines for floating are discussed in Annex 4.)

#### Controls

14. There will be a strong presumption against the use of controls on current account transactions or payments for balance of payments purposes. In this connection arrangements will be made for continuing close coordination between the Fund and the GATT.

15. Countries will not use controls over capital transactions for the purpose of maintaining inappropriate exchange rates or, more generally, of avoiding appropriate adjustment action. Insofar as countries use capital controls, they should avoid an excessive degree of administrative restriction which could damage trade and beneficial capital flows and should not retain controls longer than needed. Such controls should be applied without discrimination except as stated in paragraph 16; in this connection appropriate recognition will be given to the special position of countries that maintain close financial ties or that establish an economic and monetary union among themselves.

16. Wherever possible developing countries will be exempted from controls imposed by other countries, particularly from import controls and controls over outward long-term investment. The special circumstances of developing countries will be taken into account by the Fund in assessing controls which these countries feel it necessary to apply. In addition, developed countries should seek to remove legal, institutional and administrative obstacles to the access of developing countries to their financial markets. For their part, developing countries should seek to avoid policies which would discourage the flow of private capital to them.



Disequilibrating Capital Flows

17. Countries will cooperate in actions designed to limit disequilibrating capital flows and in arrangements to finance and offset them. Actions that countries might choose to adopt could include a more satisfactory degree of harmonization of monetary policies, subject to the requirements of domestic demand management; prompt adjustment of inappropriate par values, use of wider margins, and the adoption of floating rates in particular situations; and the use of administrative controls, including dual exchange markets and fiscal incentives. There will be improved consultation in the Fund on actions designed to limit disequilibrating capital flows, with the following objectives: first, to increase the effectiveness of such actions and to minimize harmful effects on third countries; and secondly, to avoid unnecessary proliferation and escalation of controls and the additional flows which might be prompted by anticipation thereof.

C. Convertibility, Consolidation, and Management of Currency Reserves

18. It is agreed that the basic objectives to be accommodated in the reformed convertibility system should be symmetry of obligations on all countries including those whose currencies are held in official reserves; the better management of global liquidity and the avoidance of uncontrolled growth of reserve currency balances; adequate elasticity; and as much freedom for countries to choose the composition of their reserves as is consistent with the overall objectives of the reform.

19. As part of the better international management of global liquidity, the aggregate volume of official currency holdings will be kept under international surveillance and management in the Fund. In this connection the Fund will take account of any necessary increase over time in official currency holdings in relation to the growth of international transactions and also of the special position of a limited number of countries with large reserves deriving from depletable resources and with a low capacity to absorb imports.

20. All countries maintaining par values will settle in reserve assets those official balances of their currencies which are presented to them for conversion. The Fund will establish appropriate arrangements to ensure sufficient control over the aggregate volume of official currency holdings. (Alternative approaches to the control of official currency holdings are discussed in Annex 5.)

21. Elasticity within the settlement system, particularly to finance disequilibrating capital flows, may be provided by credit facilities, including Fund credit and official bilateral or regional short-term credit. The Fund may establish as necessary new credit facilities to assist countries exposed to disequilibrating capital flows, particularly those without sufficient access to bilateral or regional credit. The establishment and use of bilateral and regional credit facilities will be reported to the Fund. The extent to which credit facilities are used would be taken into account by the Managing Director for the purpose of paragraph 6(b). (Additional forms of elasticity that have been suggested are set out in Annex 6.)

.../...

22. The Fund will, as necessary, make provision for the consolidation of reserve currency balances to protect the future convertibility system against net conversion of any overhang of such balances which may exist at the restoration of general convertibility, and to ensure that the issuers of the currencies concerned will be able to acquire reserve assets when in surplus and will not lose reserve assets beyond the amount of any future official settlements deficits. For this purpose, and also to permit countries that wish to do so to exchange official currency holdings for SDRs, the Fund will have authority to establish a Substitution Account. (Possible operational provisions of a Substitution Account with an illustrative scheme are discussed in Annex 7.) In addition, the Fund may also assist those countries that desire to negotiate bilateral funding of currency balances.

23. Countries will cooperate in the management of their currency reserves so as to avoid disequilibrating movements of official funds. Among the possible provisions for achieving this objective, the following have been suggested but are not agreed:

- (a) Countries should respect any request from a country whose currency is held in official reserves to limit or convert into other reserve assets further increases in their holdings of its currency.
- (b) Countries should periodically choose the composition of their currency reserves and should undertake not to change it without prior consultation with the Fund.
- (c) Countries should not add to their currency reserve placements outside the territory of the country of issue except within limits to be agreed with the Fund.

#### D. Primary Reserve Assets

24. The SDR will become the principal reserve asset and the role of gold and of reserve currencies will be reduced. The SDR will also be the numeraire in terms of which par values will be expressed.

25. As part of the better international management of global liquidity, the Fund will allocate and cancel SDRs so as to ensure that the volume of global reserves is adequate and is consistent with the proper functioning of the adjustment and settlement systems. In the assessment of global reserve needs and the decision-making process for SDR allocation and cancellation the Fund will continue to follow the existing principles as set out in the Articles of Agreement. However, it is agreed that the methods of assessing global reserve needs must remain the subject of study, (and it has been suggested that they may need to give additional emphasis to a number of economic factors, as discussed in Annex 8.)

26. The effective yield on the SDR will be high enough to make it attractive to acquire and hold, but not so high as to make countries reluctant to use the SDR when in deficit. The value of the SDR in



transactions against currencies will be determined in such a way as to protect the capital value of the SDR against depreciation. (Possible techniques for determining the value of the SDR in transactions against currencies are discussed in Annex 9.) The interest rate on the SDR will be set from time to time by the Executive Board in such a way as to maintain an appropriate effective yield, in the light of changing market interest rates.

27. In the light of the agreed objective that the SDR should become the principal reserve asset, consideration will be given to revising the rules governing its use with a view to relaxing existing constraints. The suggestions for relaxation that have been made include:

- (a) abolition of the limits on acceptance obligations and of the reconstitution obligation;
- (b) some relaxation of the requirement of need for the use of SDRs;
- (c) authority for willing partners to enter into transactions in SDRs without designation by the Fund;
- (d) authorization for the General Account to accept or use SDRs in all transactions and operations in which it can accept or use gold or currencies;
- (e) authorization for the Fund to designate any official international or regional institution of a financial character as a holder of SDRs;
- (f) authorization for the Fund to permit additional types of transactions and operations in SDRs; and
- (g) authorization for the Fund to modify the provisions on opting out of decisions to allocate SDRs.

Consideration will be given to other aspects of the SDR, including its name, with a view to promoting public understanding.

28. Appropriate arrangements will be made for gold in the reformed system, in the light of the agreed objectives that the SDR should become the principal reserve asset and that the role of gold should be reduced. At the same time it is also generally recognized that gold reserves are an important component of global liquidity which should be usable to finance balance of payments deficits. It is not yet settled what arrangements for gold would be best in the reformed system, having due regard to the interests of all member countries. Under one approach, monetary authorities, including the Fund, would be free to sell, but not to buy, gold in the market at the market price; they would not undertake transactions with each other at a price different from the official price, which would be retained and would



not be subject to a uniform increase. Under another approach, the official price of gold would be abolished and monetary authorities, including the Fund, would be free to deal in gold with one another on a voluntary basis and at mutually acceptable prices, and to sell gold in the market. A third approach would modify the preceding one by authorizing monetary authorities also to buy gold in the market. Arrangements have also been proposed whereby the Fund would be authorized to purchase gold from monetary authorities in exchange for SDRs at a price between the market and the official price, and to sell gold gradually over time in the market; if arrangements of this kind were introduced, questions would arise concerning both the Fund's policy with respect to its sales in the market and the sharing of any profits or losses accruing to the Fund from its gold transactions.

E. The Link and Credit Facilities in Favor of Developing Countries

29. In the light of the agreed objective to promote economic development, the reformed monetary system will contain arrangements to promote an increasing net flow of real resources to developing countries. (Such arrangements are further discussed in Annex 10, which deals with the special interests of developing countries.) If these arrangements were to include a link between development assistance and SDR allocation, this could take one of the following forms:

- (a) A link would be established between development finance and SDR allocation, the total volume of which allocation will be determined exclusively on the basis of global liquidity needs. This link would take the form of the direct distribution to developing countries of a larger proportion of SDR allocations than they would receive on the basis of their share in Fund quotas. Link resources so allocated would be distributed to all developing countries in such a way as to be relatively favorable to the least developed countries.
- (b) A link would be established between development finance and SDR allocation, the total volume of which allocation will be determined exclusively on the basis of global liquidity needs. This link would take the form of direct allocation to international and regional development finance institutions of a predetermined share of SDR allocations. Link resources distributed to development finance institutions would be disbursed to developing countries on the basis of development need and in such a way as to be relatively favorable to the least developed countries. The use of link funds by development finance institutions, including their distribution and terms, would reflect the nature and purpose of these resources.

30. It is envisaged that there will be a new facility in the Fund, under which developing countries would receive longer-term balance of payments finance.

F. The Institutional Structure of the Fund

31. A permanent and representative Council, with one member appointed from each Fund constituency, will be established. The Council will meet regularly, three or four times a year as required, and will have the necessary decision-making powers to supervise the management and adaptation of the monetary system, to oversee the continuing operation of the adjustment process, and to deal with sudden disturbances which might threaten the system. The Managing Director will participate in meetings of the Council.

Part II. Immediate Steps

32. It is recognized that, as stated in the Preface to this Outline, it will be some time before a reformed system can be finally agreed and fully implemented. In the interim period, the Fund and member countries will pursue the general objectives set out in paragraph 1, and will observe, so far as they are applicable, the principles contained in Part I of this Outline. It is proposed that a number of steps should be taken immediately to begin an evolutionary process of reform and to help meet the current problems facing both developed and developing countries.

33. The Council referred to in paragraph 31 will be established as soon as practicable. In the meantime an Interim Committee of the Board of Governors will be created, with an advisory role in the areas in which the Council is to have decision-making powers, and with similar composition and procedures. This Committee will come into being when the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work.

34. During the interim period, with significant changes in prospect for the world balance of payments structure, there is an evident need for close international consultation and surveillance of the adjustment process. Countries will be guided in their adjustment action by the general principles set out in paragraph 4. During the current period of exceptional and widespread payments imbalances, they will cooperate with one another and with international institutions to find orderly means to deal with these imbalances without adopting policies that would aggravate the problems of other countries, and to promote equilibrating capital flows; in this connection a facility will be established in the Fund to assist member countries in meeting the initial impact of the increase in oil import costs. The Fund will exercise surveillance of the adjustment process through the Council (or, for the time being, the Interim Committee of the Board of Governors)



and the Executive Board, on the lines of the procedures set out in paragraphs 5-10, and subject for the time being to the following provisos, namely that:

- (a) The Fund will seek to gain further experience in the use of objective indicators, including reserve indicators, on an experimental basis, as an aid in assessing the need for adjustment, but will not use such indicators to establish any presumptive or automatic application of pressures;
- (b) determination of what is a disproportionate movement in reserves will be made in the light of the broad objectives of member countries for the development of their reserves over a period ahead, as discussed with the Fund; and
- (c) the pressures which may be applied to countries in large and persistent imbalance will continue to be those at present available to the Fund.

35. During the interim period, exchange rates will continue to be a matter for international concern and consultation, and competitive depreciation or undervaluation will be avoided. (For these purposes during the present period of widespread floating countries will be expected in their intervention and other policies to follow guidelines on the lines of Section B of Annex 4 and be subject to surveillance in the Fund as there described.)

36. During the interim period, countries will be guided by the principles set out in paragraphs 14-17 in relation to controls and to cooperative action to limit disequilibrating capital flows. Particular importance will be attached during the interim period to avoiding the escalation of restrictions on trade and payments for balance of payments purposes. To this end, member countries of the Fund will be invited to pledge themselves on a voluntary basis, in addition to observing their obligations with respect to payments restrictions under the Fund's Articles, for a period of two years, not to introduce or intensify trade or other current account measures for balance of payments purposes without a finding by the Fund that there is balance of payments justification for such measures. 1/ In this connection arrangements will be made for continuing close coordination between the Fund and the GATT.

37. (a) Countries will cooperate with the Fund during the interim period in seeking to promote the principle of better management of global liquidity as set out in paragraph 2(d). The Fund will assess global reserves and take decisions on the allocation and cancellation of SDRs in accordance with paragraph 25. The Fund will periodically review the aggregate volume of official currency holdings in accordance with paragraph 19 and, if they are judged to show an excessive increase, will consider with the countries concerned what steps might be taken to secure an orderly reduction.

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1/ (This pledge will take the form of a Declaration, as set out in the Appendix to this Part of the Outline, p.23 below.)



- (b) The Fund will also give consideration to substitution arrangements and examine whether an amendment of the Articles of Agreement would be desirable in this connection.
- (c) There will be further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

38. It is agreed that in present circumstances, and without prejudice to the method of valuation to be adopted in a reformed system, the valuation of the SDR will be based on a basket of currencies in accordance with the "standard basket" technique (described in Section A, paragraph 1, of Annex 9,) and that the rate of interest will be determined periodically by the Executive Board in the light of changing market interest rates. This arrangement will be reviewed by the Fund two years after it comes into operation.

39. In view of the serious difficulties that are facing many developing countries, it is agreed that their needs for financial resources will be greatly increased and that all countries with available resources should make every effort to supply these needs on appropriate terms. To this end countries with available resources and development finance institutions should make arrangements to increase the flow of concessionary funds, and should give consideration to various measures including the redistribution of aid effort in favor of countries in greatest need, interest subsidies, and short-term debt relief on official loans in the special case of countries without access to financial markets. The Committee is not unanimous on the question of establishing a link between development assistance and SDR allocation. The Committee is agreed that the Interim Committee should reconsider, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board of Governors by February 1975, the possibility and modalities of establishing such a link. The Executive Board is urged to proceed to an early formulation and adoption of an extended Fund facility as referred to in paragraph 30. It is recommended that a joint ministerial Committee of the Fund and the World Bank should be established, to carry forward the study of the broad question of the transfer of real resources to developing countries after the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work, and to recommend measures to be adopted in order to implement its conclusions. It is further recommended that the joint ministerial Committee should give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies, and that preparatory work on this aspect should be started immediately, in advance of the establishment of the Committee.

40. The Executive Board will consider possible changes in the General Account and in the rules governing the use of SDRs appropriate for the interim period. The Executive Board will complete the current general review of Fund quotas as soon as possible, bearing in mind the general purposes of the reform.

41. The Executive Board is asked to prepare draft amendments of the Articles of Agreement, as needed to give effect to this Part of the Outline or as otherwise desired, for further examination by the Interim Committee, and for possible recommendation at an appropriate time to the Board of Governors. In particular draft amendments should be prepared on the following proposals:

- (a) to establish the Council referred to in paragraph 31;
- (b) to enable the Fund to legalize the position of countries with floating rates during the interim period;
- (c) to give permanent force to the voluntary pledge described in paragraph 36 concerning trade or other current account measures for balance of payments purposes;
- (d) to authorize the Fund to establish, as and when agreed, a Substitution Account;
- (e) to amend the present provisions concerning gold;
- (f) to authorize the Fund to implement a link between development assistance and SDR allocation; and
- (g) to introduce improvements in the General Account and in the characteristics of and rules governing the use of the SDR, as well as any other consequential amendments.

It is envisaged that such draft amendments, if agreed, would be presented for the approval of the Board of Governors at latest by the date fixed for completion of the current general review of Fund quotas, i.e., by February 1975.

## Appendix II

### Swedish Scheme

1. The main elements of the Swedish scheme are that:

- i) a separate fund should be set up, financed out of contributions and borrowings from the capital market in the ratio of 1 to 3;
- ii) such a fund should finance compensation payments against net shortfalls in the export earnings of all commodities other than fuels of the non-oil exporting developing countries;
- iii) shortfalls should be measured from the trend value of commodity export earnings in real terms, based on the five years immediately preceding the shortfall year;
- iv) no conditionality should be attached to compensation other than that the country has tried first to obtain a drawing from the IMF facility;
- v) compensation against shortfalls should be paid in the form of loans carrying differential interest rates, with the poorest countries paying no interest and the rest paying interest at the rate of 5 per cent;
- vi) compensation loans should be repayable in the years when a country's commodity export earnings exceed the trend value;
- vii) for the poorest countries, any loan outstanding after five years should be converted into grants but for others it should run on until it is fully repaid.

2. Apart from the above elements, the original Swedish proposal maintained that the extent to which compensation will be paid on shortfalls in export earnings will depend on the financial resources in any given year. No explicit figure was given for the ceiling. In the revised version, funding is rather vague and the extent of compensation is also uncertain. Under the original Swedish scheme the fund was to be administered within the framework of the United Nations system so that all member countries would participate in its decision-making processes. It has recently been suggested by Swedish sources that the fund may be administered as part of the IMF Trust Fund.

### German Scheme

3. The scheme suggested by the Federal Republic of Germany to stabilize export earnings of the non-oil exporting developing countries is a much more



cautious proposal and differs from the Swedish scheme. The main differences are:

- i) while the Swedish proposal seeks to cover all commodities, the German proposal draws up a list of 25 commodities which includes 17 out of the 18 commodities in the UNCTAD Integrated Programme for Commodities, but excludes a number of commodities in the STABEX scheme;
- ii) while both the proposals seek the calculation of a net shortfall in commodity export earnings, the German proposal is content with a calculation in nominal terms, on the basis of the present IMF formula of the average five years, centering on the shortfall year;
- iii) the German proposal attempts to restrain compensation claims by requiring that a net shortfall of a country must exceed 7.5 per cent of its average export earnings (2.5 per cent for the poorest countries) to qualify for compensation; thus only shortfalls above the threshold level will be compensated;
- iv) at the same time, the German proposal speaks in terms of a ceiling of US \$5 billion over a ten-year period;
- v) while the German proposal also speaks in terms of compensation loans of longer maturities and of interest rates significantly below the market rates with special treatment of the poorest countries, the Swedish proposal is more explicit in this regard;
- vi) like the Swedish proposal, the German proposal also relies on both contributions and borrowing from the capital market, but without laying down the proportion in which funds from these two sources may be raised.



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THE INTERNATIONAL FINANCIAL SYSTEM AND INSTITUTIONS



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Table I: Composition of Net Receipts of Non-Oil Developing Countries

Findings and Recommendations

1. The international financial system and its institutions are in need of change. The chief deficiencies besetting the system for international development finance are:

- (a) There is inadequate provision of finance on terms and in forms suitable for support of important activities. The gaps are in programme finance, finance for commodity stabilization, the promotion of exports, support of economic integration, the development of mineral resources, and the reorganization of debt.
- (b) The influence of developed and developing countries is unbalanced in existing institutions, which makes for inequities and distrust.
- (c) Important countries are not members of the Bretton Woods institutions.

2. These deficiencies co-exist with continuing under-employment of men and machines in large parts of the industrialized world and a major imbalance in international payments which threatens world economic recovery.

3. Against the background of this persistent imbalance in international payments and the need for worldwide investments to stimulate the world economy, there is widespread recognition of the need for major measures in the field of international finance. This provides a unique opportunity for an international effort which would simultaneously close the gaps in the financing structure, raise employment and income, and constitute a major step towards a new international economic order. This would require agreement on the principle that new arrangements have to be based on equity and fairness as much as on efficiency.

4. In view of the interest of all countries in the solution of existing problems and considering that cooperation of all groups is a precondition for a successful attempt to overcome the existing difficulties, the following approach may provide a basis for a worldwide new deal.

5. Interested countries should agree to establish a new independent international financial institution which might be called the "World Development Fund". It would consist of a number of components or lending windows, filling particular gaps or groups of gaps.

6. The Fund would need capital of the order of perhaps SDR 50 billion, of which a fraction, 10-20 per cent, would have to be paid in. The remainder would be callable. This is a notional figure. The actual figure will depend on the target annual level of lending, the statutory ratio of loans to capital which will have to be determined, and the length of the period in which no capital increase will be sought. The basic source of funds would be borrowing from the surplus countries and from the market, guaranteed by callable capital. The Fund would also receive automatic resources which may be available for development, such as from profits of IMF gold sales, seabed mining, a part of the allocation of SDRs, and proceeds from any international taxation which may be introduced. The Fund would lend to the poorer countries at subsidized rates of interest. For this purpose it would need a special budgetary grant support from the high income countries in case the automatic resources are not sufficient.   
 Being readily available as it will be market borrowing, there would be no need



7. The basic question which arises is: what is the advantage to be gained in creating this new institution rather than seeking to improve existing agencies, and possibly creating a minimal number of smaller institutions with specific functions.

- (a) The need is for long-term multilateral lending of a character essentially different from the lending of existing institutions. Even with the best will in the world, they could not change their policies and practices sufficiently. A range of financial needs falling between those catered for by the IMF and those met by the World Bank and similar institutions call for attention.
- (b) However, the chief reason for the lack of facilities or instruments for important types of financing is the lack of trust and the troubled relationship between developed and developing countries. The common feature of the different gaps is that they go to the heart of the economic and political relationships between the developed and developing countries. Whether it is programme lending, or commodity stabilization, or promotion of LDC exports, or finance to enable them to cooperate with each other more effectively, or the development of mineral resources to their advantage, or the reorganization of unviable debt structures, all these in their several ways, singly and together, are forms of finance which would enable the poor countries to become self-reliant and independent participants in a more equitable exchange with the rich countries. Thus they all call for a new approach to decision-making. It is this approach which has so far been lacking in North-South relations and which has so far defeated various efforts towards the reform of existing institutions in covering these gaps.

8. What would be the elements of this new approach? In summary, they would consist of the following:

- (a) A basis in recognized interdependence, in which the interests of members are inextricably linked together and mutually acceptable solutions have to be found.
- (b) A voting and management structure in which no single member or group of members is allowed to dominate, and where decisions are taken largely on the basis of consensus. International cooperation cannot be forged on the basis of either numerical or economic dominance. It can only rest on consensus, but positive consensus is to be distinguished from veto, which is only a negative safeguard. Positive consensus can be reached only if the equal standing of developed and developing countries as groups is accepted as a key principle.

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show it.*



- (c) The Fund's assistance would have to be extended on the basis of conditions laid down by its members. Conditionality is indispensable in lending, but it has long been a source of contention because it has been interpreted in the light of one particular view of the world or of economic policy. It is necessary to seek technical solutions which, while appropriately protecting creditors' rights, take into account the legitimate interests of the borrowing governments. Given will and effort, international cooperation can be achieved on the premise that it is possible to reconcile the interests of creditors and borrowers on a reasoned basis of long-term mutual interests.

9. The proposal to establish the World Development Fund would make it clear that a demonstratively new start needs to be made in international economic cooperation.

10. The belief in the possibility of gradual and incremental change has been at the basis of several reports and recommendations of the last decade, including that of the Pearson Commission. Results have been disappointing, precisely because the need for a basically different approach to North-South relations has not been squarely faced. By highlighting this issue the proposal could itself be a factor in overcoming the lack of trust which is at the root of the pervasive inability of governments to face up even to the problems in existing institutions. Agreement on a new and major effort would thus help to generate a new sense of optimism and purposiveness.

11. Much work is needed for a proper elaboration of the proposal. This work can be done. The crucial question is whether there is an understanding in principle that the establishment of an institution of the character described here would be a timely step towards a solution of the existing conflicts between the developing and developed countries and of worldwide economic problems of employment and investment.

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All members of the Secretariat have collaborated in the preparation of this paper. The author of the basic concept is the Director of the Secretariat assisted by Mr. Gerhard Thiebach.

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## THE INTERNATIONAL FINANCIAL SYSTEM AND INSTITUTIONS

### Introduction

1. In the years since World War II a number of international financial institutions have been created to meet recognized needs for international capital transfer which could not be adequately met by other means, such as government to government lending, private capital markets, or direct private investment.
2. The oldest of them, the World Bank, was set up with the purpose "to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs, and the encouragement of the development of productive facilities and resources in less developed countries." 1/
3. Other purposes were to promote international trade and international investment and lending and to organize it "so that the more useful and urgent projects, large and small alike, will be dealt with first".
4. Although the International Monetary Fund's financial activities were intended and remain primarily to include only lending to countries in temporary balance-of-payment difficulties, its activities have been broadened in response to various needs, such as stabilization of export earnings.
5. In the World Bank, and to a lesser extent, the International Monetary Fund, lending to developing countries has become the dominant activity and this has in the course of time led to important changes in policies and practices, and to new initiatives, such as the setting up of the International Development Assistance (IDA) window of the World Bank. But the financial needs of developing countries and other requirements which could not be met by existing agencies have also led to the creation of a number of other international financial institutions, including the Regional Development Banks, aid agencies, and a number of



special funds. The major international financial institutions are not universal. The U.S.S.R. and most of the socialist countries of Eastern Europe are not members, and China has so far abstained from taking its place in these institutions. The lack of universality, in addition to its political cost, deprives countries of the benefits of mutual development experience and curtails the scope of international assistance.

6. In the total net flow of financial resources to non-oil developing countries, those international agencies account for slightly less than 15 per cent. Bilateral official flows account for about two-thirds, although the share of concessional flows (Official Development Assistance - ODA) has declined sharply in the course of the Sixties. On the other hand, lending by private banks has increased to as much as 20 per cent. (Annex Table I). But by far the greatest part of the burden of efforts to improve the standard of living of the poorer peoples of the world has been borne by the poorer peoples themselves.

7. In the following analysis some attention will be given to volume of capital flows but more to the question of the weaknesses of present arrangements for development finance. These weaknesses have been exacerbated by the present disarray in the international monetary system which affects development finance severely. The instability of the exchange rates for key currencies affects the real value of current income of exporting countries and gives rise to uncertainties which discourage investment, particularly in exhaustible resources. Furthermore, no government is committed to support, in case of emergency, that part of the international banking system that has been able to expand in recent years without the restraints and safeguards customary in national banking regulations. There are great uncertainties concerning the future value of the main reserve currency, the future supply of other potential reserve assets, and the risks of destabilizing shifts among them by holders of international cash balances.

8. Of equal importance is the persistence of extreme disequilibria in international payments, where very large deficits and surpluses call for greater opportunities for long-term placement in the interest of both surplus and deficit countries. Although serious financial crises have been averted in the Seventies, the deflationary impact of attempts to reduce deficits have affected income and employment and stimulated trade-restricting policies. A break in the post-War expansionist trend has occurred. The international recession and the under-utilization of capacity associated with it is entering its sixth year. Unemployment in developed countries has reached 16 million and is threatening to increase as the United States has been compelled to seek to reduce its deficit. Having so far softened the impact of the recession on the world economy, current U.S. policies are now likely to exert a deflationary effect on the rest of the world. In developing countries there is a threat of stagnation and increasing unemployment if developed country markets are closed or investments decline in developing countries, due to a weakening of commodity prices or insufficient international finance. A number of proposals to step up investment worldwide, including the massive transfer of resources to developing countries, in order to support



world economic recovery have been made recently, and are discussed in a later part of this paper.

9. It is argued in this paper that the present international system for financing development has two major shortcomings. In the first place, a number of important activities are difficult, if not impossible, to finance. There are gaps in the structure of organized public international finance; these hamper growth in developing countries and, in many cases, it would also be to the advantage of developed countries to fill them. The principal types of credit now missing are:

- (a) programme finance, i.e. non project long-term capital;
- (b) commodity stabilization finance;
- (c) export credit facilities, particularly for capital goods;
- (d) support of economic integration;
- (e) finance for mineral development;
- (f) debt reorganization finance.

10. Secondly, these gaps have, for the most part, long been recognized. For more than a decade attempts have been made to steer existing international financial and monetary institutions in the direction of supplying more credit for such purposes. Those institutions have made significant contributions to development through their lending and technical assistance, but they have also failed to make any but the most hesitant moves towards this kind of change. This can only be related to the nature of the decision-making and management of existing institutions, in which the borrowers have relatively little influence and feel that their own priorities are given inadequate attention. At the same time they have deep misgivings about the involvement of some of these institutions in determining policies in developing countries beyond what could be justified by the need to protect current loans and guarantee their responsible use.

11. The present relationship between creditors and borrowers in development finance is not only at the root of the important gaps in the system, but it is also of crucial importance to the frustrations and irritation which poison developing-developed country relations. The issue is of sufficient importance to prompt a major effort for change.

12. The following Chapter I analyses the nature of the gaps in the present structure of development finance. Chapter II reviews some of the recent proposals to arrange for a massive transfer of resources to developing countries. The concluding Chapter III outlines a proposal for a new initiative designed to remedy the weaknesses.

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## 1. The Gaps in the Financing Structure

### A. Programme Finance

14. Programme lending provides support for the entire set of projects and activities of a country and helps ensure their execution in the face of fluctuating fiscal revenue and balance of payments. It is needed on terms compatible with the long-run nature of most investments and the time required to correct structural imbalances in the external accounts of developing countries. 1/ Programme lending pays for imports not related to particular projects, as countries have financial needs for borrowing which cannot, in a variety of circumstances, be satisfied by project finance. Many lenders prefer to lend for projects, since they can see - or believe they can see - their loans directly translated into increased productive capacity in the borrowing country. However, even if the goal of lending were uniquely to finance increased fixed investment rather than its fuller utilization, it would not follow that lending should always be for particular investment projects. 2/

15. The developing countries have shown a continuing active interest in programme loans. In recent discussions in the joint World Bank/IMF Development Committee, developed country representatives have been divided about the desirability of further programme lending by the World Bank, but they have been agreed on the importance of this kind of finance. The Pearson Commission recommended long-term programme lending on a rising scale by IDA and by bilateral donors.

16. This recommendation was not followed by the World Bank group, whose preference for project finance goes back to Bretton Woods and the World Bank's Articles of Agreement. The latter may have been influenced by the view that the defaults in the 1930s were caused by improper use of funds rather than the the Great Depression.

17. As soon as postwar lending started, however, it became clear that the restrictive nature of the specific project provision was incompatible with the need to transfer resources efficiently and quickly. Most Marshall Plan funds for Europe were disbursed on a programme basis.

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1/ IMF assistance which is of short to medium maturity (normally 3-5 years and in the extended facility maximum of only 8 years) and supports emergency stabilization programmes or offsets cyclical short-falls in export earnings is not a substitute for long-term programme lending. In the last two or three years, there have also been very substantial amounts of private bank lending to governments for balance of payments, non-project purposes. These loans are restricted to a small number of borrowers and are on commercial terms and of short to medium term maturity.

2/ There is no firm dividing line between project and programme lending. There is really a spectrum with finance for imports of capital goods for a particular capital installation at one end, and general purpose loans at the other. In between lie sector loans not related to specific projects, and various kinds of lending for imports made necessary by investment. The generic term "non-project" is often substituted for "programme".



The World Bank found itself legally and administratively able to engage in programme lending and consequently its early lending to Western Europe and to Australia consisted of programme rather than project loans, the Articles notwithstanding.

18. When lending started to developing countries the specific project provision was invoked by the Bank in all its rigidity. It has remained the basic principle of development lending ever since, although there has been some widening of the project concept occasionally, particularly in agricultural lending. In recent years, the World Bank/IDA has provided programme loans but only exceptionally: they accounted for an average of under 4 per cent of their annual lending in the 1976-78 period, and only 2 per cent in the last year. <sup>1/</sup> Programme loans are discussed by the Bank in most of its documents as something of a temporary nature which in ideal circumstances would not be necessary. Regional development banks do not give programme loans. The Asian Development Bank recently decided to start, but only within the maximum limit of 5 per cent of its total lending.

19. Bilateral official assistance includes programme finance. Some donors make programme loans available on generous terms and to a wide range of borrowers. But, if food aid is excluded, the sums involved - especially for the poorer countries - are modest, and the flow of such loans is highly uncertain over long periods, since they are subject to changes in donors policies which occur not infrequently. Much of bilateral programme lending is on a year-to-year rather than a long-term basis and is subject to continuous negotiation. One should note also that some 40 per cent of all DAC ODA goes to countries of US\$400 or more (1976) per capita income.

20. In addition to the lending referred to above, there are some further types of lending which perform some - but not all - of the functions of programme lending. Lending for local cost finance of projects is one of these - it pays for general purpose imports, the local-currency proceeds of the sale of which go to support investment activities, sometimes also current expenditures associated with projects. Such loans contribute to recipients' savings and the

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<sup>1/</sup> A peak of 8.8 per cent was reached in FY 1975 (US\$520 million). The "up to 10 per cent" figure referred to in a policy paper agreed by the Bank's Board has never been reached. In their entire history up to 1978, the Bank and IDA have made non-project loans totalling US\$3,523 million out of a total US\$57,922 million, or 6 per cent of all loans. (Both figures exclude the US\$497 million loans to Europe in 1946-48.)

and the balance of payments. <sup>1/</sup> However, as they are linked with project progress, they disburse only slowly.

21. Many other loans both of the international and of bilateral agencies may partake of a "programme" character, at least in part; some loans designed for on-lending through recipient institutions, sector loans, loans for agricultural credit agencies and so forth. As already noted, a clear demarcation between project and programme is not always possible. However, when all the circumstances requiring long-term, fast disbursing assistance are considered, it is obvious that the amounts of programme lending available are wholly inadequate.

#### Project lending: Rationale and Flaws

22. Both bilateral and multilateral aid agencies have persisted in their preference for specific projects when lending to developing countries because of the ease of supervision of the use of funds and because it enables them to influence project selection, technique and management. Borrowing countries have recognized some of these concerns and few advocate abolition of project lending, although all want its simplification. What is argued, however, is that the almost exclusive reliance on it is wrong and should be supplemented by programme lending if foreign assistance is to be effective.

23. The disadvantages of exclusive reliance on project lending include the following:

- (a) It fails in the crucial objective of foreign assistance: adequate transfer of resources. Disbursements of project loans have proved extremely slow. In the experience of the World Bank, it takes on the average 3.5 years from the identification of a project to the effectiveness of a loan, and another 6 years for project completion, making for a ten-year cycle per project. During the project cycle, large changes are likely to occur in costs and other circumstances, complicating project implementation. Recently, delays in loan effectiveness and disbursements have been longer than in the 1960s. The World Bank's loan commitments have built up

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<sup>1/</sup> In this matter, multilateral and bilateral aid donors reverse roles, the former being relatively willing to incorporate some local cost finance in projects occasionally to a large proportion of total project costs, many of the latter finding this relatively difficult, usually because it is hard to tie such loans to purchases from the donor country. Bilateral donors practices are, however, moving in the direction of local cost financing to an increasing extent - assisting rural, labour-intensive development projects is almost impossible otherwise, and many donors have expressed the intention of devoting more of their aid to such purposes. The proportion of Bank/IDA project loans available for local costs averaged 10 per cent in 1969-74. It has modestly increased in more recent years. For the bilateral donors, the proportion has so far been much smaller.

(OECD DAC Local Cost Financing, Paris, May 1977).



from a level of US\$2 billion in 1971/72/73 to just over US\$6 billion in 1978, but the level of disbursements has risen from US\$1 billion only to US\$2.8 billion. Bilateral donors have not been increasing their commitments at this rate, but have also been concerned at the slow pace of disbursements. Coupled with the substantial debt service arising from past loans, the disbursement problem is thus a serious impediment to resource transfers. The World Bank's US\$2.8 billion disbursed in 1978 was offset by repayments of US\$0.9 billion and interest of US\$1.3 billion, for a net transfer of only US\$0.6 billion, i.e. hardly one-tenth of commitments. 1/ This experience has led the OECD Development Assistance Committee (DAC) to conclude: "Official capital has not kept pace with the rapid expansion of private capital; if continued this trend would weaken the debt service capacity of developing countries and add uncertainty concerning the adequacy of future capital availability to meet investment needs. In this the JEDD and Regional Development Agencies are not in a position to play a fully adequate role". 2/

- (b) Shifting moods and priorities in developed countries and international lending agencies lead to massive shifts in their preferences for the type of projects they want to finance, frequently irrespective of the country's own priorities. In the 1950s and early 1960s rural electrification and water supply were not only refused finance by some agencies, but lending for any project in the sector was made conditional on such rural works being dropped from the national plan. In the mid-1970s the same agencies would almost refuse to lend for any purpose if such rural projects were not given priority in the plan. "Almost all donors have a substantial preference for tying their contribution to identifiable projects, with the result that in low-income countries available external resources encourage too many projects starts..." 3/ Also "... donors tend to follow each other's example in adopting similar priorities and programme practices ... too many agencies search out and compete with each other for the same kinds of projects". 4/ Therefore "... partly as a result of all these inadequacies in aid flows and donor policies, many poor countries experience lagging internal demand, growing externally-financed project pipelines, and worsening living standards affecting the majority of their people". 5/

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1/ In the same year IDA disbursed US\$1.3 billion, with only US\$47 million of offsetting debt service. However, IDA disbursements fell by 18 per cent in 1978, despite a sharp rise in commitments.

2/ DAC, 1978 Review, page 23, Paris 1978, Report by the Chairman.

3/ DAC, op. cit., p. 24 (and 26).

4/ DAC, op. cit., p. 26.

5/ DAC, op. cit., p. 24



- (c) Three biases are introduced by exclusive reliance on project lending. First, large projects are favoured over small, as lending agencies have a minimum threshold size of operations in order to keep down administrative costs. Secondly, new fixed investment is favoured over better utilization of existing capacity, as agencies normally do not finance working capital (labour and raw materials). Thirdly, as a result of project specification and tying procedures of multilateral and bilateral agencies, there is a tendency towards capital intensive processes.

Programme lending: Economic Role

24. Programme lending offsets the disadvantages of exclusive reliance on project lending:

- (a) By supporting the overall process of capital formation in a country and better utilization of existing capacity, it helps to raise employment and income throughout the borrower's economy. This expansive effect will be greater than in project lending, as the latter has an isolated impact;
- (b) Programme loans are disbursed quickly, normally over a two-year period. As imports financed by these loans are sold on the domestic market, they generate local currency for the government. Consequently, a quick and steady rate of disbursements, in addition to providing support for the balance of payments, also helps finance domestic expenditures, including expenditures on foreign-financed projects, thus helping their execution. Shortage of local currency has been a major factor in disbursement delays. <sup>1/</sup> Provision of programme funds would reduce the resource waste now resulting from incompleting projects.
- (c) A country may have substantial domestic industrial capacity, in which case foreign financing of capital equipment imports may be unnecessary or quite limited in support of investment activities. In such circumstances programme lending contributes to investment by supporting the balance of payments costs of domestic capital formation. (There is a related circumstance, when a country has substantial excess capacity in past investments which it cannot put into full production because of foreign exchange shortage - this is clearly a need which cannot be met by project finance aimed at creating new capacity).

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<sup>1/</sup> "A review of the [World] Bank of the causes of slow growth of disbursements indicates that implementation of many Bank-assisted projects has been adversely affected as borrowing governments have tried to adjust to inflation, balance of payments difficulties and to rising budgetary deficits. In adjusting to inflation by reducing expenditures, and in adjusting to balance of payments difficulties by cutting back on domestic credit expansion, governments have found that counterpart funds needed for the full financing of Bank and IDA-financed projects are in short supply; this shortage, of course, affects project implementation." (World Bank, Annual Report, 1978, p. 9.).

- (d) Structural changes in developing countries also require long-term support by programme lending: these include the building up of social, administrative and managerial infrastructure, or the diversification of economies dependent on production of a restricted number of mineral or agricultural commodities. These changes cannot be accomplished by project lending only. 1/

#### Absorptive Capacity

25. An argument frequently used against programme lending is that it may encourage waste. This argument is linked with the view that the absorptive capacity of developing countries is limited, that this is the main reason for the slow rate of project disbursements, and that programme lending would only mean higher consumption rather than investment. There are two separate features of the question - whether countries can absorb large additional quantities of project aid under current terms and conditions, and whether they could, if additional, flexibly useable, foreign exchange resources were available in large amount, turn such resources into productive investment. When limitations of absorptive capacity are referred to, it is in fact the former that is the chief difficulty. Absorptive capacity limitations exist, but they are frequently a result of procedural and institutional conditions set by the project lenders rather than of basic nature. In the World Bank experience, technical problems, mainly of engineering type related to civil works or equipment, are infrequent in project implementation. 2/ In many cases, it is worth noting, additional programme finance would increase the absorptive capacity for project finance, indeed is often indispensable as a

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1/ "Investment does not consist only of what is normally described as projects, or even less "bankable" projects. The necessary organization of the economy requires an effort in fiscal reform, administrative reform and agrarian reform, the progress in each of which is part of a national effort and should be judged as a fulfilment of a 'project'. The same is also true of a typically 'non-bankable' project taking the form of the expenditure necessary for the reorganization of the economy in the sense of providing for a diversification of exports ... The effort to switch from coffee, cocoa, bananas, sugar, etc. into other exports must necessarily take several years. During the first, second and third years of such an effort, no visible improvement in exports or yields appears on the surface. The reorganization of exports is a project which has a gestation period of, say, five years, when no increase in yield (there is even sometimes a fall in yield) will materialize during the first four years. Yet, unless this effort is undertaken when needed, the requisite diversification will not take place five years later. The investment necessary for projects of such long gestation requires external assistance. That, however, can only be provided within the context of a programme approach rather than within that of a single project approach." (Paul Rosenstein-Rodan, A study on independent evaluation of national development efforts, UNCTAD TD/7/Supp.15, 15 December 1967.)

2/ Arturo Israel, Toward better project implementation, Finance and Development, Washington DC, March 1978.



complement to project lending. On the whole issue, DAC has arrived at the following conclusion:

"Many donors are able to argue that the absorptive capacity of poor countries is so limited that they are unable to disburse all the funds available for poverty-focussed projects. It is important to stress that this is not a reasoned reflection on absorptive capacity in any fundamental sense related to the long-term needs of the poor. Rather, it more commonly reflects the limitations imposed by existing donor rules and practices, especially the reluctance to finance local cost programmes rather than projects, recurrent development-related expenses rather than capital .. With appropriate adjustments in donor rules and with more flexible commitments -- as well as more effective help to poor developing countries in the preparation of programmes and projects -- the potential for a useful and productive transfer of resources to low-income countries would be several times larger than at present".

"Lest we imagine that it would be inappropriate to relax these constraints of donors, we should note that there is not a country in the world which would set such conditions for the domestic transfer of public funds to aid poverty sectors within their own country. Moreover, the notion of the limits set by absorptive capacity for the transfer of ODA must be judged against the positive experience of developing countries whose resources availabilities have risen sharply, for whatever reason. It appears that a good part of the "limitation" on absorptive capacity is artificially engendered by development assistance agencies." <sup>1/</sup>

#### Relationship to the Debt Problem

26. The crucial feature of programme loans is that they provide foreign exchange not tied to a specific project use. The need for such unrestricted foreign exchange has become acute during the last several years as deficits of the many developing countries have risen sharply and disbursements of project loans have lagged. A limited number of developed countries have met this need by borrowing from private international banks, mostly on short and medium term. The poorer and the weaker countries have not been able to obtain international private credit in significant amounts. Shortages of freely usable foreign exchange in the face of rising costs and balance of payment difficulties have contributed to the slow-down of growth in the poorer countries. They need long-term programme loans from official sources as they cannot obtain them elsewhere.

27. Availability of freely usable foreign exchange is of major importance for the regular maintenance of debt service payments at present. This service is very large as almost three quarters of the debt has an average life of under 6 years. As the short and medium-term loans are now falling due, very large amounts of new borrowing are needed to repay and service them. Such amounts cannot be mobilized through project loans. For as long as the banks are willing and able to roll over the debts, the problem is

<sup>1/</sup> DAC, 1978 Review, op. cit., pp. 24-25.



minimized. But as a result of the need for such continuing roll-overs, both the debtor economies and the entire international credit structure have become highly vulnerable to downward fluctuations and shifts in capital flows, which may be caused by a rise in domestic demand for credit in industrialized countries, change in the perception of creditworthiness of borrowers, or shortage of available funds. The amounts of the needed roll-overs in particular cases are staggering. In view of the likely constraints on the rate of expansion of international private credit and the risks involved in the present unbalanced debt structure, additional long-term sources of unrestricted external finance must be sought, hence the need for official programme finance.

#### Case for Programme Lending

28. The deficiencies of an exclusive reliance on project lending, the economic advantages of programme lending, the inability of the poorer countries to obtain general-purpose finance in the international capital market, and the exigencies of the debt problem, are powerful reasons for long-term programme lending to become a rule in development lending, equivalent to project lending, rather than an exception as at present.

#### Conditions

29. The conditions of long-term programme loans normally refer to the investment programme as a whole and to policies to implement it, and they are aimed at assuring that the resources are properly used. The issues usually involved concern the size and composition of investment and the adequacy of domestic resource mobilization. These issues are more critical for the success of the development effort of a country than is the successful execution of a single project under a project loan. But these are issues which affect very deeply the income and employment levels, the priorities, and income distribution in developing countries - all highly political subjects. They can be resolved without causing major frictions between lenders and borrowers only if the latter are assured full and equal participation in setting the lending conditions and in implementing them.

#### Amounts

30. The required volume of programme lending is difficult to estimate. Various assessments of the external capital requirements of developing countries have been made; but these cover all aspects of financial needs of all developing countries. In some sense programme lending is a residual category which has to be estimated as an adjunct to developing countries' investment programmes and needs for foreign exchange, in the light of their receipts of other types of finance and export earnings. The problems of at least three kinds of countries can be distinguished - the better-off developing countries which can borrow private capital, but which need a source of lending of longer maturity; the middle group of developing countries, including the large low-income countries of South Asia; and the least developed countries. Given that one purpose of programme lending is to supplement alternative sources of funds in the event of unexpected difficulties, or anticipated difficulties of long duration, a facility with an annual lending capacity of \$5 billion, in addition to current levels of programme lending, would be at the low point of the range.



B. Commodity Stabilization and Related Finance

31. Commodity stabilization and related finance is needed to assure a price floor for export primary products of developing countries. Such a floor is a condition for improvement in their terms of trade and debt servicing capacity. The price floor would also help sustain world effective demand for manufactured goods. The need for commodity stabilization finance was recognized by the Pearson Commission. No decisive action was taken, however, and the pervasive instability of commodity prices and earnings continue to be a source of dislocation in the world economy. Especially vulnerable are the weak economies heavily dependent on a few primary exports. The UNCTAD Integrated Programme for Commodities, with the Common Fund as its central element, has become a key part of the demand of developing countries for a New International Economic Order.

32. In the course of negotiations, the developed countries have agreed in principle on the establishment of the Common Fund as a new international financial institution. They have further agreed in principle that the Fund will have two lending "windows": for commodity stocks; and for investment projects and programmes aimed at production diversification, and productivity and market improvement. They have also agreed that the Fund will be an institution in which the developing countries will have an adequate share of decision-making power.

33. Consensus of views has not occurred on two main points: first, the extent to which the Fund will derive its resources from direct government contributions or through individual commodity agreements; and whether government contributions to the "second window" (diversification, etc.) will be mandatory or voluntary. Behind these two points is the fundamental issue of the scope of operations of the Fund and its capacity for decisive action. Also unresolved are the details concerning its voting structure and the associated issues of management and control.

34. The third negotiating session on the Common Fund ended in late November 1978. The next session will be held in March 1979. At the time of writing of this paper, the need for commodity stabilization finance has not yet been met.

C. Manufactured Exports Finance

35. The developing countries need support in providing export credit finance, particularly for capital goods. A number of these countries are now exporting such goods in rising quantities with others developing the potential to do so. These sales often require extension of medium-term credit which the developing country exporters must provide and for which, being deficit countries, they need refinancing. Many initiatives to establish such refinancing schemes have not been followed up by international lending agencies. Only the Inter-American Bank has a refinancing facility limited to capital goods sales mainly within the region, and a recently established Latin American Export Credit Bank, with an equity participation of approximately US\$2.7 million by the International Finance Corporation, plans to refinance short and medium-term credit for non-traditional goods. One of the effects of instituting a programme of broad support for export credit finance for developing countries, which is now lacking, would be to stimulate trade amongst them, particularly as assured availability of refinancing would remove one important element of uncertainty facing the existing and potential exporters.



36. In 1976, developing country producers and exporters of capital goods had about US\$5 billion of such exports of which about one-half went to other developing countries. This market is not only highly competitive in price, quality, after-sale service and speed of delivery but also with respect to the availability and cost of export finance credit. While a number of developing countries have in recent years set up facilities for providing export credit finance, the sufficient availability and continuity of such finance is often in question, and a further rapid growth of their capital goods exports would strain the resources of these institutions, which essentially draw their funds from their national foreign exchange resources supplemented by foreign borrowing.

37. The industrialized countries are now extending export credits at interest rates ranging from 7.25 per cent to 8 per cent with maturities of 2 to 8.5 years. If the developing countries were to finance their export credit needs individually through borrowing from the international capital markets (e.g. Eurocurrency market) the interest cost and other charges would be considerably higher, thus forcing them to subsidize their export credits if they are to be competitive with the suppliers from the industrialized countries. (Borrowing rates for six-months' international bank loans repayable in dollars exceeded 12 per cent in January 1978; to this should be added the so-called front-end fees.) The export credit needs of the developing countries could be met at costs comparable to those at the disposal of developed country suppliers if the requisite resources could be provided either through a separate multi-national export lending facility or as part of programme lending if it is instituted as a regular component of development finance. It would be justifiable to provide resources for export finance since export activity is the vehicle through which a country's long-term dependency on external finance would be reduced and the export structure diversified.

38. While it is difficult to judge accurately the extent of the present unmet and future needs of developing countries for medium- and long-term export finance, based on the past and the likely future performance of the developing country exporters of capital goods, it can be crudely estimated that the gross disbursement requirement for term credits is likely to be of the order of US\$1.7-2.1 billion in 1980.<sup>1/</sup>

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<sup>1/</sup> This estimate is arrived at by assuming that (i) the exports of capital goods from all developing countries would grow to about US\$ 10 billion in 1980 (using 1976 as the base year for projection and assuming an annual nominal growth rate of 20 per cent, which is below the recent experience); and (ii) 20 to 25 per cent of such exports would need term finance which would cover the conventional 85 per cent of the value of the contracts. (An Expert Group of UNCTAD has put forward an indicative figure of US\$ 1.5 billion to US\$ 2.8 billion as gross disbursements of medium- and long-term credit for capital goods by developing countries in 1980). The gross disbursements may be expected to grow by 15 per cent per annum in the early 1980s.



D. Economic Integration Support

39. There is now a lack of finance to support payments arrangements amongst developing countries aimed at increasing their general intra-trade. Better export finance for capital goods would contribute to it, but the needs are broader. Expansion of general trade through market integration arrangements has long been a principal method of economic cooperation among the developing countries. That a number of integration schemes have achieved only slow progress, or have encountered retrogressions has been in part due to balance of payments difficulties experienced by one or more of the participants. Trade liberalization under such schemes often results, in its early stages, in payments deficits being incurred by one or more members vis-à-vis other partners. Mutual credit extension through payments arrangements would be the principal means of overcoming the difficulty and thus accelerating integration. However, there will be instances in which external assistance would be needed. These arise when those group members with intra-group surpluses experience difficult overall payments positions and have highly restricted access to external sources of finance and are hence reluctant to accentuate their own difficulties by extending credits to the deficit members. More generally, there will be need for the periodic settlement of balances from intra-trade, which will need support of outside finance.

40. While countries experiencing balance of payments difficulties can avail themselves of the facilities of the IMF, subject to its attending conditionality provisions, at present no mechanism exists in the IMF or multilateral development finance institutions to assist through payments arrangements those countries experiencing balance of payments deficits arising out of trade liberalization under integration arrangements. The provision of medium-term balance of payments support for the countries experiencing deficits stemming from integration-connected or other forms of trade liberalization, and for settlement of balances in payments unions could make an important contribution to promoting growth of trade among developing countries and thus to world economic recovery. Along these lines, the Pearson Commission recommended that financial assistance be provided to "development banks and clearing and payments unions which are designed to promote trade among developing countries on a regional scale." <sup>1/</sup>

E. Energy and Mineral Finance

41. Financing requirements in the fuel and non-fuel mineral sector in developing countries (excluding OPEC countries) are estimated at close to US\$20 billion per year in the 1980s.<sup>2/</sup> Most developing countries will need large-scale outside support for these investments. Those developing countries that do not yet exploit any of their mineral resources face the greatest difficulties in raising capital for mineral exploration and development.

<sup>1/</sup> Partners in Development, p. 95

<sup>2/</sup> Financing requirements for the development of all energy sources, including "exotic" and non-traditional sources are substantially higher. They are highly elastic with regard to assumptions on the future role of nuclear energy and non-commercial sources of energy (wood, charcoal, etc.), as well as to technological developments in the field of solar energy and access to energy imports. For a detailed discussion see Secretariat paper 15 "Non-Renewable Resources Energy and Environment". Annex I, Table 7 of that paper indicates investment requirements of the energy sector in non-oil exporting developing countries according to various assumptions.



42. The traditional pattern of mineral finance and exploitation was dominated by international mining companies, which provided capital, technical knowledge and marketing facilities; operated "enclave" projects; and appropriated most of the profits and rents. The almost complete absorption of profits and rents has been a cause of great and continuing resentment in the exploited countries, and the traditional pattern has now broken down. It was the initial unequal bargaining strength of developing countries which led to subsequent investment disputes; what is of crucial importance is the strengthening of their bargaining capacity, which comes with the diversification of the sources of finance, and of technical and marketing knowledge, especially at the time of investment, if minerals are to be exploited with benefits for these countries and at a rate needed by the international economy.

43. As matters now stand, non-fuel minerals projects in developing countries have a higher rate of return in many cases than in industrialized countries (mineral deposits in developing countries are richer), but investment has been lagging, as mining companies have preferred projects in developed countries. In oil and gas, the amount of geological and geophysical work as well as exploratory drilling, have remained at very low level in most developing countries since 1973.

44. International development banks have traditionally largely abstained from lending for mineral projects, on the grounds that sufficient funds were available in the private sector for this purpose. In practice, this meant that mining companies could dictate their terms of exploitation to developing countries, particularly the poorer and weaker amongst them, as they had no alternative sources of finance and knowledge.

45. This situation is now changing somewhat. The World Bank group expects to lend US\$350-400 million per year for non-fuel minerals, but this is only about 3 per cent of total project costs. As a proportion of their total commitments, it would rise from 1.4 per cent to about 3 per cent. A more ambitious World Bank group plan has just been formulated for fuel minerals, calling for an average yearly lending of about US\$600 million, rising to US\$1.2 billion or 10-11 per cent of their total commitments, in 1983. The Asian Development Bank plans to lend US\$120-140 million for both fuel and non-fuel minerals in 1981-82 (8 per cent of their total lending); and the Inter-American Development Bank is considering a plan for a regional insurance guarantee fund for energy and minerals development. Despite these initiatives aggregate mineral lending by these institutions is unlikely to account for more than 10 per cent of total investment requirements in the sector. The major purpose of these initiatives is to attract private investment into exploration of minerals through "international presence" of the lending institutions and the protection to investors that this is expected to provide.

a realistic basis for debtor's development finance. This recommendation was not followed. The Commission further appealed to the World Bank and the IMF to participate in debt rescheduling discussions. The Bank refused to reschedule any of its debts, although in some cases it engaged in persuading other creditors to reschedule theirs. The IMF has been associated with many debt reorganizations, but not as a provider of long-term development finance. Its efforts and assistance have been mainly directed at assuring the acceptance by the debtors of a short-term stabilization programme necessary to restore quickly the confidence of the creditors, which has in many cases caused resentment and in some, riots and bloodshed. 1/

50. Two other unfavourable features of the past pattern should be noted. First, individual debtors have been treated very differently even when their economic circumstances were similar. The treatment depended on external political relations, commercial factors and sometimes accidents of personalities. Secondly, creditors' claims have in most cases been protected in full, even when they have shared the responsibility for the crises, having imposed unfair terms in original contracts on governments operating in financial distress or ignorance.

51. Neither principles nor machinery for debt refinancing now exist.

52. In framing such principles and machinery, three kinds of debt reorganization should be distinguished. The first consists of a partial replacement of the external debt by new borrowing on better terms, undertaken by the borrower itself and not calling for any public funds. A number of such "market" debt reorganizations occurred, e.g. in 1978 as the borrowing terms in the Euro-currency market improved: the debtors prepaid some of their earlier loans out of proceeds of new borrowing on better terms. Only borrowers considered highly credit-worthy by the investors can engage in this kind of debt reorganization. Its overall effects are likely to be small as only a part of the debt can be turned over in this way.

53. The second kind consists of a gradual lengthening of the average maturity structure of the debt by borrowing from public agencies new funds at substantially better terms than the borrower could obtain in the market. These terms will normally also be better than the terms of the country's existing debt. Consequently, the maturity structure will improve over time as the existing short and medium term debts are repaid or at least do not increase, while new debts consist of long term loans. This kind of gradual or "silent" debt reorganization can be accomplished if there is sufficient official long-term programme lending. It is applicable in the case of borrowers whose main debt problem is the maturity structure of the debt ("bunching") rather than its over-all excessive size or the exorbitant interest charges.

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1/ IMF assistance normally is tied to specific policy requirements to liberalize imports, devalue, and curtail domestic credit, particularly to the public sector. The speed of the adjustment, the quantitative nature of the conditions and their adherence to a free-trade school of thought have been the subject of major disputes between the IMF and a number of developing countries. For a detailed discussion of conditionality of IMF assistance see the Secretariat paper "The Reform of the International Monetary System".



54. The third kind of debt reorganization calls for an overhaul of the existing debt through a re-arrangement of the entire maturity structure and probably a renegotiation of interest. These are the difficult debt cases where serious and sustained debt servicing difficulties can be expected and cannot be cured by improving the terms of new borrowing. The inadequacy of the past ad hoc approaches suggest the need for the establishment of a separate debt refinancing facility to handle such cases. It could assume the debts of such countries on renegotiated terms and substitute for the earlier creditors, or guarantee repayments of the renegotiated amounts. As a part of the same operation the facility and the debtor would have to agree on a short and a long-term plan aimed at restoring economic growth and balance of payments viability, recovering creditworthiness and avoiding debt difficulties in the future. The establishment of such a debt refinancing facility should be accompanied by an international agreement on rules for the handling of payments crises, including appropriate involvement of other international organizations. <sup>1/</sup> The facility should be such as to inspire confidence of the debtor, the creditors, and of the international community at large.

#### G. General

55. The financing gaps discussed above are not a new discovery. The developing countries have experienced their effects for decades and made major efforts to convince the lenders of the need for closing the gaps. This refers in particular to programme finance and commodity stabilization finance, but also to others. The development literature has recognized the existence of these gaps and agreed on new initiatives to close them. Special investigations have largely confirmed this view - see the Pearson Commission Report.

56. To renew proposals for the reform of existing institutions, such as the World Bank, would serve little purpose. Most observers would agree that the World Bank Group has proved both flexible and effective and made impressive contributions to development. There is intense debate about its future role and organization, focussing partly on whether it should continue its dizzy growth, on whether it should seek a more decentralized organization, on the allocation of its resources among agriculture, industry and other sectors, and on numerous other proposals intended to enhance its efficiency.

57. Experience suggests that, however valuable some such changes would be, they would be unlikely to alter the nature of the World Bank in the direction where it would or could address itself to the problems highlighted in this Chapter. Marginal changes in the voting structure, the composition of the Board, etc., would make little difference in this respect although that is not to deny the importance of the World Bank's reviewing both its policies and its decision-making process.

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<sup>1/</sup> Such rules are now under negotiation in UNCTAD.

46. Three policy issues are relevant for energy and non-fuel mineral lending: First, there is a need for technical, economic and negotiating advice to the developing countries engaged in contract negotiations, with international mining and petroleum companies and in preparing domestic energy and minerals plans and legislation. An international agency lending for mineral development is inevitably drawn into this process and frequently plays an intermediary role in the relationship between the country and the companies. It is crucial that no doubt exists concerning impartiality of the agency. In this respect, the agencies dominated by the developed countries are almost inevitably at a disadvantage, however good their intentions may be; and this disadvantage is heightened by the fact that in the past they refused to assist in mineral development when requested by developing countries and some even stopped lending for any purpose to countries which had disagreements with mining and petroleum companies.

47. Secondly, there are countries which are not attractive for private investment, or do not want private investment in their energy and mineral sectors, or are not members of the existing international lending agencies. This last group certainly would not benefit from the mineral activities of these agencies, and the former two most likely would also be left out in view of the predominant role expected to be played by private investment (the agencies do not foresee lending for more than 20 per cent of project cost). This would adversely affect in particular those countries which have not yet started to exploit their mineral potential. It is essential that the developing countries be involved as equal partners in the formulation and execution of international mineral planning and lending policy.

48. Thirdly, lending for non-fuel minerals on a systematic and expanding basis raises the question concerning its overall effects. An over-investment will lead to a price and earnings decline. While the present lending plans are too small to have such an effect, they may be a fore-runner of a much higher level in the future, which combined with other investments, may have far-reaching adverse effects on prices and incomes of developing countries-exporters of exhaustible resources as a group. This is another reason for full participation of developing countries in planning international mineral policy and lending.

#### F. Debt Reorganization Finance

49. The debt servicing record of developing countries has on the whole been excellent, particularly vis-à-vis private banks, but there have been debt servicing difficulties and occasionally payments crises. With rising debts and a growing number of debtors, these difficulties are bound to increase. The past approach to handling debt problems has been unsatisfactory. The general pattern has been for the concerned creditors to work out a debt rescheduling within the informal framework of so-called "clubs". In most cases only near-term debt is in fact refinanced on difficult terms ("short-leash" approach) which often results in severe constraints on debtor's development and makes it impossible for him to engage in long-term investment and production plans and policies which could restore his debt servicing capacity on a sustained basis. The Pearson Commission strongly condemned this practice and recommended that debt relief should be provided for an adequate period to avoid a rapid succession of repeated reschedulings and instead seek to re-establish



58. Nor could the Regional Development Banks be asked to undertake the responsibility of filling the financing gaps. Their relations with the member countries are closer than those of world-wide institutions, making them more suitable for the tasks involved, but these banks are also following heavily project-oriented approaches and they are constrained by constitutional limitations. Many other international financial agencies have been specifically created for special purposes (IFAD, UNFPA, etc.) <sup>1/</sup> and neither could nor should seek to support entirely different activities.

59. One is led to the conclusion that the present gaps in the system are unlikely to be closed without a major new departure. It is probable that there is considerable aversion towards the thought of creating a new international institution, and such a proposal must be solidly argued. However, it is also pertinent that there are already numerous proposals around for steps to increase substantially the flow of resources to developing countries in a manner that would also be of interest to the developed countries and which would satisfy the need for a basically different approach to developing-developed country relations.

## II. Recent Proposals for Increased Capital Transfers

### A. Setting

60. A number of proposals, some by governments and others by prominent public and private figures, have been advanced in recent years for increased capital flows to developing countries, drawing primarily on private market resources. These proposals have been prompted by three sets of considerations.

61. First is the present malaise characterizing the economies of the OECD countries, among which are:

- (a) The rate of growth in 1978 (3.5 per cent) was lower than in 1977 (3.7 per cent); and 1979 is expected to be lower than 1978 (3 per cent);
- (b) the unemployment rate in the OECD countries has remained at 5.4 per cent during 1976-78, while the absolute number of the unemployed has increased;
- (c) the rate of utilization of manufacturing capacity in the major OECD countries has fallen to an average of 80 per cent; and
- (d) the rate of productivity growth in OECD countries has slackened, and the per-man productivity shortfall below the trend ranged from one per cent to five per cent per year during 1974-78, the major factors in the decline being both cyclical and structural.

<sup>1/</sup> IFDA: International Fund for Agricultural Development  
UNFPA: United Nations Fund for Population Activities.



62. As discussed in some detail in Secretariat Papers 10, 11 and 17, 1/ it is increasingly suggested that a worldwide investment effort is needed, including a massive transfer of resources to developing countries, to step up growth in the world economy. In this context the developing countries can assist the recovery of the industrialized countries' economies just as the former's massive deficit financing in 1974 and 1975 helped to moderate the latter's recession in those years. Such future investment effort would be expected to include the surplus industrialized countries and the surplus countries of OPEC.

63. The short-term problems of structural adjustment to the new competitiveness of developing countries will be considerably reduced if economic growth in industrialized countries is resumed, and in a longer perspective, there is little reason to doubt that the growth of investment, income and markets in poorer countries will also benefit richer ones in the future as it has in the past.

64. This was one of the premises on which the case for a large-scale policy of reconstruction and development was argued by US officials in the post-War years; and when there is now talk of a "Global Marshall Plan"2/ it is because, however great the differences between the situation then and now, it is recognized that there is a similar need for a massive effort.

65. Secondly, the present reliance on short and medium-term credit for "recycling" surpluses to deficit countries, especially developing countries without access to the longer end of the market, gives rise to a precarious debt structure (Secretariat Paper 9, "Debt") which is too vulnerable to shocks and vicissitudes to be comfortable to either creditors or debtors. The need to supply long-term capital to developing countries by official steps has been the principal rationale of the entire system for public development finance, and however welcome the access to bank borrowing that has emerged in the '70s, there is now a need for consolidation and shoring up in the form of more long-term commitments.

66. Thirdly, various proposals have recognized gaps of the kind previously discussed. Those proposals dealing with specific gaps will be referred to as special proposals. Most proposals, however, have been concerned with the transfer of resources in general, although some indicate preferred uses.

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1/ Respectively on "Increased Resource Transfers", "Mutual Interests", and "Prospects".

2/ E.g. in Time Magazine, Essay, June 12, 1978, it was suggested that the adoption of a Global Marshall Plan for developing countries was the most direct and the most workable way to cope with world poverty and that only such a plan could overcome the feeling that much aid was wasted because it consisted of piecemeal efforts by the givers to finance uncoordinated projects rather than a comprehensive and effective plan. Such a plan, the Essay said, should be complemented by a reduction of barriers in developed countries on imports from developing countries; and it should include as its component part stabilization of export commodity prices of developing countries through common funds.

B. General Proposals

67. (a) In March 1977, a Commonwealth Experts' Group suggested that "... beyond this need /i.e. "a marked increase in development assistance"/ for what is essentially a holding operation to maintain the inadequate momentum so far achieved, we see a pressing need for an entirely new dimension in international co-operation for development. A major increase in the transfer of resources is needed. ...". The Commonwealth Heads of Government at their meeting in London in June 1977 considered the experts' report and generally endorsed it as "a constructive contribution towards developing a specific action programme".
- (b) In March 1977, Mr. Abdlatif Al-Hamad proposed the establishment of a new multilateral guarantee fund of US\$500 million, of which US\$100 million would be paid in, to reimburse bondholders and assure the service of the bonds of developing countries in case of default. The funding would be provided jointly by the industrialized and OPEC countries. It was considered that the fund could support a volume of issues of US\$2.5 billion over five years. In 1978, the Governor of the Bank of Greece, Xenophon Zolotas, proposed the establishment of an insurance agency to provide guarantees for private international loans, without indicating any amount. The purpose of both proposals would be to strengthen the position of developing countries in the capital market and improve their debt structure.
- (c) In August 1977, Mr. Claude Cheysson, EEC, called for an increased transfer of resources to developing countries and restructuring of the world economy. Chancellor Kreisky (Austria) had outlined a similar proposal even earlier.
- (d) In October 1977 and again in May 1978 Mr. Edward Heath proposed that the EEC borrow on long term substantial amounts now held by OPEC at short term, estimated at US\$40-60 billion. The funds would be used in the depressed areas and industries in Europe in need of restructuring, and in developing countries for general economic development and for mining and raw materials expansion. The general objective would be to raise the overall rate of investment and fuel world economic recovery. Mr. Heath has later widened his proposal to include borrowing from other surplus countries in addition to OPEC.
- (e) In April 1978, Senator Jacob Javits and seven other US senators proposed the establishment of a capital pool of US\$50-100 billion for productive investment in developing countries and possibly socialist countries of Eastern Europe and China as a means of stimulating world economic activity and achieving development objectives. The main source of funds would be OPEC countries, which would obtain appropriate guarantees for maintenance of the real value of investment.



- (f) Also in April 1978, at the Joint Ministerial IMF-IBRD Development Committee, the Mexican Government proposed the establishment of a long-term financing facility of US\$15 billion, consisting of three annual tranches of US\$5 billion each, to be used by developing countries for purchase of capital goods in developed countries. Such a facility would alleviate the debt problem of developing countries, and at the same time stimulate world industrial production. There would be no project tying, which would enable speedy disbursement of funds. The resources would be raised by the issuance of bonds at 15 years maturity denominated in SDRs, guaranteed by both developing and developed countries. Only participating countries would be entitled to obtain orders. The facility would be managed by the World Bank. Dr. Lal Jayawardena, Sri Lankan Ambassador in Brussels and former Secretary of Finance and Planning, supporting the proposal, has suggested that it may be too small in relation to the amounts needed to stimulate recovery, the size of investible resources in countries with balance of payments surpluses, and capital needs of developing countries. He has also suggested that the facility may be initiated by a limited number of countries if universal membership cannot be immediately obtained and that alternative institutional arrangements should be considered.
- (g) Again in April 1978, Mr. Masaki Nakajima, President of the Mitsubishi Research Institute and former Managing Director of the Mitsubishi Bank, proposed the establishment of a new international institution, a Global Infrastructure Fund, of US\$13 billion per year, to be contributed to by the U.S., the Federal Republic of Germany and Japan (US\$5 billion), OPEC countries (US\$5 billion), and other industrialized countries (US\$3 billion), for investment in major international projects of a pioneering nature. With an estimated multiplier effect of US\$25 billion, it would provide a significant stimulus to the world economy. While questions have been raised concerning the priority of some of the proposed projects (a second Panama Canal, hydro-electric dams, etc.) there seems to be broad agreement in Japan that a major worldwide investment effort is needed, centred on developing countries, to restore the growth momentum of the world economy. Dr. Saburo Okita, Chairman of the Japanese Economic Research Centre and former head of the Japanese Foreign Aid Administration, has suggested the adoption of a Global New Deal aimed at increasing investment in developing countries and reduction of unemployment in developing countries.
- (h) In May 1978, the Economic Policy Council of the UN Association of the United States of America, at its panel on International Capital Flows and the Less Developed Countries proposed the establishment of a pool (or portfolio) for the loans of a variety of oil-importing developing countries. Such a diversified portfolio would have a lower credit risk than lending to one or a few countries. The pool would issue interest bearing notes of participation payable out of the repayment of such loans; would benefit from a partial guarantee, perhaps to the extent of 20 per cent of the total portfolio, issued, for example, by an international organization (or perhaps by a group of developed countries); and might obtain additional funds



by selling participation notes to other governmental and private institutions. The Proposal has some similarity with the Mexican proposal; its underlying reasons are: apprehension that the international banking system is not likely to be able to lend to developing countries as heavily as in the past; their continuing need for further borrowing; and the need for an improvement of the debt structure through longer maturities.

- (i) In May 1978, the Swedish Government requested at the U.N. a study of the feasibility and possible benefits to the world economy of a massive transfer scheme. Ministers in charge of aid in the Federal Republic of Germany (Mr. Offergeld), Norway (Mr. Støttenberg) and in the United Kingdom (Mrs. Bart) have voiced their interest.
- (j) In June 1978, the OECD-DAC Secretariat proposed a programme of increased transfer to developing countries of US\$10 billion per year for several years, as a stimulus to the world economy and to future supply of potentially scarce products. The finance would be used for specific projects in energy, food and raw materials. The principal channels would be co-financing of specific projects by private banks and multilateral development lending agencies, and export credits by developed countries. The proposal is under discussion in DAC. Its principal flaw is that stimulus to the world economy would be slow in coming due to the slow rate of disbursements on project loans and procedural delays involved in co-financing arrangements.
- (k) A number of less official suggestions have also been made. For example, Professor Michael Stewart, a consultant to the Commonwealth Secretariat, suggested in September 1978 the establishment of a new international institution for programme lending to assure an efficient transfer of surpluses generated by Japan, the Federal Republic of Germany and OPEC at an estimated rate of US\$50 billion annually. He argues that in the absence of greatly enlarged long-term transfers, deflationary pressures on the world economy will intensify as the present transfer mechanism, operating mainly through private international banks, is insufficient and excessively risky. Neither the IMF, because of the short-term nature of its lending and its rigid conditionality, nor the IBRD, because of its overwhelmingly project-gearred lending, are suitable for this purpose.

#### C. Special Proposals

68. (a) In May 1978, the Chairman of the Midwest Stock Exchange, Mr. Robert Raclin, who participated in the Commission's Round Table on commodity problems, submitted the outline of a proposal for a World Commodity Bank. The purpose of this institution would be to use buffer stocks, intervention in futures markets or other appropriate market measures to set a floor to export commodity prices of developing countries and to endeavour to iron out the violent movements in these prices. It would be capitalized at about US\$6 billion with US\$4 billion paid in by both exporting and importing countries, each of which would have an equal number of shares and voting rights. The proposal closely resembles the original Common Fund scheme advanced by UNCTAD.

- (b) In August 1978, Mr. Abdlatif Al-Hamad suggested an International Export-Import Bank for the pooling of those resources of existing export credit financing agencies in the developed countries that are devoted to the support of their exports to developing countries. As these were pooled into one agency, developing countries would be able to make purchases from any country participating in the scheme, the essential purpose of which would be to untie purchasing decisions from the credits now used by developed countries to promote their own exports.
- (c) A proposal worked out by UNCTAD for UNCTAD V concerns an Export Credit Guarantee Facility (ECGF) for developing countries. Surveys of leading financial institutions indicate that export credit paper which cannot already be discounted in international markets could gain access when guaranteed by a properly constituted ECGF, which would thus enlarge the access of developing countries to capital markets. According to the proposal, it would require World Bank Group/IBF and/or government guarantees and a certain amount of long-term finance, tentatively discussed in the form of loans from the World Bank group and regional development banks.

D. Summary

69. The proposals referred to in this Chapter vary considerably in scope and nature. Nonetheless, three conclusions can be drawn. First, the concern for the revival of the world economy is widely shared, and there is a broad consensus that it should be based to a considerable degree on an acceleration of growth in developing countries. Secondly, many of the proposals anticipate large borrowings from surplus countries or from the capital market by using government guarantees. Thirdly, some of the proposals rely on using the existing institutions, while several consider that institutional changes, including the establishment of new institutions, are needed to accomplish efficiently the capital transfers required to achieve acceleration of growth. In the next Chapter, a proposal is outlined for effecting simultaneously the purposes discussed here. Under this proposal, a specific institutional form would be provided for achieving stepped-up capital transfers to developing countries.



### III. Institutional Framework

70. The problems of existing gaps in the international financial system; of insufficient and inadequate participation of developing countries in existing institutions; of persistent fundamental imbalances in international payments; of the lack of universality of the Bretton Woods system; of lagging worldwide investment required to stimulate the world economy; and the widespread recognition of the need to undertake new action in international finance on a broad scale provide the unique opportunity for an international effort which would simultaneously close the gaps in the financing structure, raise employment and income, and take a major step towards a new international economic order. This would require agreement on the principle that new arrangements will have to be based on equity and fairness as much as on efficiency.

71. In view of the interest of all countries in the solution of existing problems and considering that cooperation of all groups is a precondition for a successful attempt to overcome the existing difficulties, the following approach may provide a basis for a worldwide new deal.

72. Interested countries should agree to establish a new independent international financial institution which might be called the "World Development Fund".<sup>1/</sup> It would consist of a number of components or lending windows. One of the components would be a facility which might be entitled Development Finance - it would fulfil several of the functions of lending of a non-project nature described above under the headings of Programmatic Lending, Export Finance, Economic Integration and Debt Reorganization.<sup>2/</sup> In relation to the latter, there would be a Debt Bureau within the institution to handle difficult debt cases which required something more than improved terms of new borrowing, in the shape of an agreed plan for short- and long-term balance of payments viability. This would operate in collaboration with other institutions. A second component would be for Commodity Finance. The precise nature of needs in this area can only be specified once the on-going negotiations for the Common Fund are complete. The present state of the negotiations suggests that there will be additional needs to be considered. A possibility would be to locate the Common Fund itself within the proposed new institution. A third component would be Mineral Finance, a lending source with provision for international coordination of mineral exploration and investment policies.

73. At present there are no institutional means of adjusting inequities which arise from unequal international distribution of wealth and power and the World Development Fund would make a contribution to this end by helping to restructure the international financial system and by supporting

<sup>1/</sup> The name "World Development Fund" originated with Mr. Escott Reid, Canadian diplomat and scholar, in his book "Strengthening the World Bank", 1973.

<sup>2/</sup> It should be recognized that the gaps discussed are not of equal significance in terms of priority or resource requirements.



a world investment programme with special emphasis on investments in the poorer regions. The new institution would take its place side by side with the existing ones, complementing them in two essential respects: first in providing types of finance which are either not available or are wholly inadequate from existing sources, second in having a different kind of management structure. The types of finance are of particular importance to developing countries and their achievement of economic independence. Their common feature is that they go to the heart of the economic and political relationships between developed and developing countries. They also call for a new approach to decision-making.

74. The institutions set up by Bretton Woods did not envisage these financial needs of developing countries. Nor did they foresee a time when those countries would need and deserve a major voice in the financial institutions which so profoundly affect their destiny. That time has surely come. The establishment of the World Development Fund would constitute a recognition of what has been missing hitherto. With an adequate financial base and management structure, the cooperation of this new institution with those already in existence would go a long way towards rectifying the defects of North-South relations in the field of finance.

75. The Fund would operate on the basis of interdependence which implies a sense of community, in which the interests of members are inextricably tied and mutually acceptable solutions are found as each member is needed as an integral part of the whole effort. This implies a voting and management structure in which no single member or group of members dominates and where decisions are taken on the basis of consensus. What is foreseen is a structure intermediate between the one-country one-vote systems of United Nations organizations, and the capital-subscription-weighted structure of the Bank or the quotas of the Fund. Equality between the developed and developing countries as groups should be the key principle. Management would have to be equally shared and full participation of all members would have to be assured. The Fund would not seek technical solutions that do not reflect the basic national interests of governments as defined by these governments. The creditors' rights would have to be appropriately protected.

76. The Fund would need a capital of the order of perhaps SDRs 50 billion, of which a fraction, 10-20 per cent, would have to be paid in. The remainder would be callable. This is a notional figure. The actual figure will depend on the target annual level of lending, the statutory ratio of loans to capital which will have to be determined, and the length of the period in which no capital increase will be sought. The basic source of funds would be borrowing from the surplus countries and from the market, guaranteed by the callable capital. The Fund would also receive a part of the allocation of SDRs and any automatic resources, including those derived from seabed mining. The Fund would lend to the poorer countries at subsidized rates of interest. For this purpose it would need a special budgetary grant support from the high income countries in case the automatic resources are not sufficient. <sup>1/</sup>

<sup>1/</sup> A once-and-for-all capital contribution to the Fund of approximately US\$225 million could subsidize US\$1 billion of lending with 25-year maturity by <sup>1</sup>/<sub>4</sub> percentage points off the interest paid by the borrower. (This assumes a market rate of interest of 8 per cent.)



77. Relying heavily, as it will, on market borrowing, there would be no room for slack management in the new institution, nor complacency towards any deficiency of economic management in borrowing countries. The Fund would naturally be concerned that its programme lending activities contribute to the maximum extent to raising productive capacity, and not to non-developmental purposes such as unnecessary consumption or military expenditure. The conditions for the Fund's assistance would be laid down by the membership as a whole.

78. Conditionality has never been criticized as such, but has long been a problem because of its specific interpretation by existing institutions. Fund members would jointly establish respective criteria which would reflect not just one particular world view or a specific theory of economic policy. The Fund should use to the maximum the experience and the services of the existing institutions in collaboration with them. It should not require a large bureaucracy as the examples of the Kredit Fund for Arab Economic Development and the Vienna-based OPEC Fund show.

79. The importance of a specifically multilateral institution for the functions of the World Development Fund has been noted at various points. As far as concerns the programme lending activities of the Fund, an additional consideration is the reduction of uncertainty. Uncertainty is a serious problem affecting all economies. It is particularly serious for low-income countries, which either have no resources to cope with sudden shocks, or feel obliged to maintain high levels of reserves or expensive stocks of real goods to cope with possible large swings in foreign earnings or domestic agricultural output. This protective behaviour may have considerable costs in terms of growth - rational in an uncertain environment, but avoidable if greater certainty could be provided from outside. Some facilities exist (e.g. the IEP's Compensatory Finance Facility) which address such needs; but they are very small in relation to developing countries' overall foreign exchange problems, and besides contain discretionary elements in their triggering procedures so that finance is not guaranteed in case of needs, or comes under excessively rigorous conditions. 1/

80. Many observers have seen the need for programme finance in the light of a concerted international effort to assist individual countries to keep to a sustained path of growth. 2/ Various consortia and consultative

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1/ A proposal was made by the United Kingdom and Sweden at the 1964 UNCTAD which would have coped more adequately with the problem: entitled Supplementary Financial Measures, it was designed to protect developing countries from shortfalls below a trend in export earnings which arose from circumstances beyond their control. Under the scheme, supplementary finance would have been made available to keep a country's foreign exchange earnings at or close to a level implied by an agreed development programme. The scheme was never set up, for a variety of reasons. But one of its raison d'être was the provision of a rational form of "insurance" - some portion of aid would have been available in case of particular need.

2/ See e.g. E.S. Mason and R. Asher, The World Bank since Bretton Woods, Brookings, Washington, DC, 1973, pp. 292 ff. The problem is also referred to in the Secretariat Paper on automatic resources, SP.19.





86. The crucial question now is whether there is an understanding in principle that the establishment of the World Development Fund is the right approach towards a solution of the existing conflicts between the developing and developed countries and of worldwide economic problems of investment and employment.

TABLE I

Composition of Net Receipts of  
Non-Oil Developing Countries

(1969/71 and 1975/77)

	Billion US dollars		Percentage	
	<u>1969/71</u>	<u>1975/77</u>	<u>1969/71</u>	<u>1975/77</u>
<u>ODA</u>	<u>8.0</u>	<u>19.4</u>	<u>51.9</u>	<u>38.6</u>
DAC bilateral	5.7	9.6	36.8	19.3
OPEC bilateral	1.1	4.6	3.2	8.8
Centrally-planned economies	0.4	4.4	5.8	1.6
Multilateral agencies	0.8	0.8	7.1	8.5
<u>Non-Concessional</u>	<u>7.4</u>	<u>30.8</u>	<u>48.1</u>	<u>61.4</u>
DAC non-bank bilateral	5.8	16.4	37.7	39.8
OPEC bilateral	0.7	2.7	1.3	2.7
Centrally-planned economies	0.2	1.3	0.6	0.1
Bank lending	0.6	10.4	3.9	20.9
Multilateral agencies	0.1	0.1	4.5	5.4
<u>Total</u>	<u>15.4</u>	<u>50.2</u>	<u>100.0</u>	<u>100.0</u>

Memorandum item

Total at constant (1970) US dollars:

1975/77

ODA

11.5

Non-concessional

17.2

Total

28.7

DAC deflators (1970 = 100):

ODA

169

Non-concessional

179

Total

174

WDC

Sixth Meeting  
23-26 February 1979

31 January 1979

THE INTERNATIONAL MONETARY SYSTEM

A. Introduction

1. The economies of most developing countries can be broadly characterized as lacking diversified production, with export outputs (primary products) that loom large in total production, but which do not constitute domestic production surpluses. Their imports constitute a high proportion of total consumption and almost all the produced means of production. They do not have substantial foreign exchange markets for their currencies to cover themselves against foreign exchange risks. Moreover, most of these countries depend, for their government revenues, on taxes levied on international transactions.

2. Other developing countries have developed a range of manufactured exports and financial institutions, but all of them are deficit countries in the international financial system. Their growth rates and structural transformation into mature economies depend significantly on the earnings of their exports and the availability and terms of capital inflows. Their interest in the international monetary system is therefore to ensure that it provides mechanisms that facilitate these capital flows and ensure a stabilization and expansion of trade in primary commodities. Of course, these interests should be perceived in the context of the international community as a whole, taking into account in particular the interests of the industrial countries. An important dimension of international monetary reform that meets these divergent interests is an early establishment of a reserve standard that is associated with a smooth and effective system of exchange-rate adjustment, provides a regular source of reserve growth under administrative control and avoids accumulation and decumulation of holdings of national currencies in official reserves.

3. In the past eight years we have witnessed profound changes in the international monetary system: the breakdown of the Bretton Woods system, introduction of floating exchange rates among the major currencies, exchange rate crises and payment imbalances. These developments in the international



monetary field and in the world's exchange markets cannot be understood in isolation. They reflect a number of basic changes in the structure of the world economy in the last three decades and in particular changes in the balance of power among the industrial countries and a phenomenal growth of international financial integration. In order to understand these changes it is useful to take a brief historical look. Indeed, more than in most fields, attitudes towards world money are greatly conditioned by historical experience (or, more accurately, what some people believe to have happened in the past) and by sentiments that are shaped largely by an unconsciously held vision of power or of economic purpose. Accordingly, this section starts with a brief history of the Bretton Woods system.

#### B. The Functioning of the Bretton Woods System

1. The Bretton Woods system that broke down in the 1970s was conceived during a world war that followed a world depression and was very much an "AEC affair" (America, Britain and Canada in that order). <sup>1/</sup> For historical reasons that were unique, these three countries had an unusually large influence in the negotiations. Germany, Italy and Japan - countries that wield significant clout today - were then enemy countries and thus not represented at Bretton Woods. France was still under German occupation; its government in exile played only a marginal role. Most of the developing countries of Africa and Asia were still colonies and their interests were presumed to be taken care of by their respective "mother countries". <sup>2/</sup> The Soviet Union was only brought into the deliberations towards the end and sat on the sidelines. Although the war was not over, there were unmistakable signs that only the United States and Canada among the major trading nations of the pre-war world showed promise of emerging with minimum economic hurt. Continental Europe was a scene of widespread devastation and Japan was crumbling. <sup>3/</sup> Under these circumstances, it was inevitable that in these deliberations the United States would play a dominant role. The war had not only shattered the United States's isolation, it had spurred her productive capacity and technology as never before. Her trade surplus for 1946-49 in the amount of US \$32 billion was enormous and she held by 1948 over 70 per cent of the world's gold reserves.

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<sup>1/</sup> It was, in fact, the brainchild of Harry Dexter White (USA) and Lord Keynes (UK).

<sup>2/</sup> Those represented included Egypt, Ethiopia, Liberia and India.

<sup>3/</sup> A.L. Keith Acheson, John F. Chant and Martin F.J. Prachnowy (ed.) Bretton Woods Revisited (Macmillan, London 1972).

5. The main elements of the Bretton Woods system can be briefly summarized:

- (i) agreement by each member country to undertake to maintain the par value of its currency in terms of gold or an intervention currency; changes in exchange rates being permitted only to correct a "fundamental disequilibrium" in international payments and generally requiring prior agreement of the IMF (this is the so-called "adjustable peg" exchange rate regime);
- (ii) obligation by each member country to make their currencies convertible although they were entitled under Article VIII to avail themselves of a transitional period of up to 18 months length before accepting the obligation;
- (iii) provisions of the Articles of Agreement of IMF and of Gold Fund under which restrictions on trade and current payments are generally permissible only in situations of temporary balance of payments difficulties and rules regarding the Fund's use of resources to overcome these temporary balance of payments difficulties without resorting to measures destructive of national and international prosperity;
- (iv) the specification of gold as the ultimate reserve asset; it was to be supplemented by a pool of national currencies that would be created in the Fund through quota subscriptions by member countries;
- (v) the creation of a permanent institution (IMF) to provide the machinery for consultation and collaboration on international monetary problems.

6. The main elements of the system established by the United Nations Monetary and Financial Conference in 1944 were designed to ensure a world of full employment and stable economic growth. It was understood that the system could not come into operation until the economic disruption caused by the war had largely been overcome, and provision was therefore made for transitional arrangements during the early post-war period. Although the magnitude of needed capital was underestimated, the enormous American surpluses made available (via the Marshall Plan) accelerated the reconstruction of Europe and Japan. United States influence was also used to curtail the vast depreciations of other currencies against the dollar which took place by 1949. The view had evolved in the United States that aid would be wasteful to countries that could neither produce nor compete at pre-depression



exchange rates. 1/ What appeared to be long well understood both at Bretton Woods and in the post-war years thereafter was the manner in which the system might have to be adapted to take into account the needs of the less developed countries 2/ and an economically mature Europe and Japan.

7. The system that emerged in practice was fundamentally unstable on at least three grounds. Firstly, the system failed to provide explicitly for a systematic mechanism by which world reserves could grow with world trade and the world economy. Throughout the 1950s world reserves did grow only partly as a result of new gold production in excess of non-monetary uses and more significantly as the result of the deficits in the US balance of payments. Of the US \$8.5 billion increase in world reserves in the years 1949-1959, the United States provided US \$7 billion through the increase in its liabilities to foreign monetary authorities. 3/ Thus the United States took on the major role of a world central bank, a role that had to be left

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1/ "In 1949, Britain devalued by 30.5 per cent and Sweden did the same. Holland devalued by 30.1 per cent; Belgium 12.3 per cent; Canada 9.1 per cent. Depreciations of even greater magnitudes took place in the defeated Axis nations. In 1948 the Federal Republic of Germany recalled all its currency and for each 100 reichsmarks issued seven new deutschmarks. There were some variations in the rate of issue (corporations, for example, received a different rate), and none was issued to those who had none at all. But this reconstitution of currency approaches a 93 per cent depreciation. Nevertheless, in 1949 the deutschmark was devalued an additional 20.7 per cent against the dollar. From the end of WW II through 1949, the total depreciation of the Italian lire was 63.9 per cent, 8.5 per cent of it in 1949. The pre-war (1941) Japanese yen had been worth some 23.4 US cents or just over 4 yen to the dollar. The post-war rate was set at 371 yen to the dollar, a 93.4 per cent devaluation. France had devalued its currency 66 per cent from the war's end through 1949. In 1949 alone, by Federal Reserve reckoning which slightly differs from that of the IMF, the devaluation was 33.7 per cent". Sidney E. Rolfé and James Burtke, The Great Wheel: The World Monetary System (New York: Quadrangle, 1973), p. 65.

2/ Both at Atlantic City and at Bretton Woods, the Indian delegation proposed an amendment to Article I (ii) which would have required the Fund to "assist in the fuller utilization of resources of economically underdeveloped countries". This proposal was, however, voted down. See J. Keith Horsefield, The IMF 1945-1965, Vol.1, chronicle (IMF, Washington 1969), pp. 85-93.

3/ Robert Soloron, The International Monetary System, 1945-1976: An Insider's View (New York, Harper and Row, 1977), p. 31.



unspecified in the Bretton Woods agreement. This was both an opportunity and a challenge. It was an opportunity since it provided liquidity, elasticity and financial stability as required by a growing world economy (see Tables 1 and 2), though the inter-country distribution of such liquidity, especially to developing countries, has not been in conformity with needs. (See Tables 3 and 4.) But it was also a challenge because confidence in the dollar, and hence in the system itself depended inter alia on a stable dollar, a precondition that ceased to hold in the late 1960s. For the non-reserve currency countries, this system of reserve creation contained an important short-coming. They were made to exchange real goods and services for a reserve currency centre's I.O.U.s, i.e. they contributed to a reverse resource transfer to a reserve currency centre. 1/ Moreover, the growing use of a national currency as an international one ultimately contained the seeds of its own destruction, for sooner or later convertibility into gold would inevitably have been surpassed 2/ (see Table 5).

8. Secondly, the system lacked incentives for making adjustments in countries with persistent surpluses or countries able to finance their

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1/ When a country accumulates means of payment from abroad, it does so by refraining from using those means of payment to obtain real resources from other countries. For its part, the country which supplies the foreign currency thus accumulated does so in exchange for a good or service from the country receiving the currency. Thus, a country which finances its deficits with its own currency is really changing that currency for goods and services abroad. The country which accumulates such currency is supplying goods and services in exchange for it, so that there is a net flow of real resources from the country which accumulates reserves towards the country which finances its deficits. The country issuing the currency is receiving seigniorage from those accumulating it. See Carlos Kuczaj, "The Revolt of the Bankers in the International Economy: A World Without a Monetary System", CEPAL Review, second half of 1976, pp. 25-96 and John Williamson, The Failure of World Monetary Reform, 1971-1976 (London, Nelson, 1977), p. 78.

2/ This is the so-called "Triffin dilemma" inherent in a gold-exchange standard. To be widely acceptable as an international reserve, a national currency must be strong in the sense that nobody seriously contemplates its devaluation. But to make a contribution to the stock of reserves owned by other countries such a currency must be weak in the sense that the country in question must have a deficit in its balance of payments. In an expanding world economy depending on expansion of reserve currency balances, this leads to a deterioration of reserves to liabilities ratio of the reserve centre ending in the suspension of convertibility. In the recent case of the US dollar, this outcome was delayed for years by a series of expedients which partly anticipated the formal break made on August 15, 1971. See Robert Triffin, Gold and the Dollar Crisis (New Haven, Yale University Press, 1960).



Table 1

## Growth of World Reserves (by components)

(in billion SDRs)

	1953	1955	1960	1965	1969	1970	1971	1972	1973	1974	1975	1976	1977
Foreign Exchange	15.3	16.7	18.5	24.0	33.0	45.4	75.1	96.1	101.7	126.9	137.5	160.6	200.5
Gold <sup>1/</sup>	33.9	35.1	37.8	41.5	38.9	37.0	36.0	35.6	35.6	35.6	35.5	35.3	35.5
SDR	-	-	-	-	-	3.1	5.8	8.7	8.3	8.3	8.3	8.7	8.1
Reserve position in Fund	1.9	1.8	3.5	5.3	6.7	7.7	6.3	6.3	6.1	8.8	12.6	17.7	18.1
Total Reserves	51.1	53.6	59.8	70.8	78.6	93.2	123.2	146.7	152.2	180.1	194.4	222.3	262.2
	Foreign Exchange as percentage of total reserves												
	30	31	31	34	42	49	61	65	67	70	71	72	76

<sup>1/</sup> Valued at SDR 35 per fine ounce.Source: IMF, International Financial Statistics, May 1978.



Table 2

Growth in World Reserves<sup>1/</sup> and World Trade, 1950-76

(In per cent per annum)

	World Reserves	World Exports
1950-54	3.1	6.2
1955-59	1.6	6.1
1960-64	3.7	8.6
1965-69	2.5	9.3
1970-73 <sup>2/</sup>	29.7	16.5
1973-76 <sup>3/</sup>	9.7    3.6 <sup>4/</sup>	23.7

<sup>1/</sup> In special drawing rights.

<sup>2/</sup> Through the first quarter of 1973.

<sup>3/</sup> Beginning with the second quarter of 1973.

<sup>4/</sup> World reserves less those of the Organisation of Petroleum Exporting Countries.

Source: Andrew D. Crockett, "Control over International Reserves", IME Staff Papers, vol. 25 No. 1 March 1978, page 2.

Table 3

Total International Reserves in Relation to Imports of Goods 1965 and 1969-77,  
By Region  
(In per cent)

	1965	1969	1970	1971	1972	1973	1974	1975	1976	1977
All Countries	40	31	31	40	41	34	28	28	28	30
Industrial Countries	45	29	31	41	38	30	22	22	21	24
Other Europe	33	30	30	42	52	47	29	23	23	24
Australia, N.Z., South Africa	28	33	29	41	78	52	25	22	20	16
Oil exporting Countries	41	44	48	65	70	66	146	110	104	90
Developing Countries	28	29	30	31	38	38	25	23	30	34
Latin America	26	26	29	30	44	46	25	20	30	39
Middle East	45	38	36	44	53	54	34	32	35	32
Asia	30	32	31	32	36	32	25	25	32	34
Africa	19	24	26	22	24	24	18	15	16	18

Source: Calculated from data in IMF, International Financial Statistics  
Country coverage as in the original source

Table 4

Sources and Beneficiaries of International Reserve Creation: 1970-74  
(in billions of SDRs = US \$ until 1971)

	World	Industrialized Countries			Third World Countries		
		U.S.	Other	Total	Total	OPEC	Other
I. Bal. of Payments Surpluses or Deficits (-)(+)(-)	as Gold 0.3	-66.2	22.5	-43.7	44.0	33.6	10.4
II. Beneficiaries of Credit Reserve Creation:	99.6	62.4	34.0	96.4	3.2	0.2	2.9
A. Of Central Reserve Creation:	7.3	1.2	2.8	4.2	3.2	0.2	2.9
1. SDR Allocations	9.3	2.3	4.7	7.0	2.3	0.4	2.0
2. Net IMF Lending	-1.4	-1.0	-1.2	-2.2	0.9	-0.1	1.0
3. Net OSEF Lending	-0.6	--	-0.6	-0.6	--	--	--
B. Of Acceptance of Nat. Currencies as Int. Reserves	92.3	61.1	31.2	92.3	--	--	--
III. Gross Reserves (I ± II):	99.9	-3.9	56.5	52.7	47.2	32.9	13.3
at the end of 1969	78.1	17.0	45.7	62.6	15.5	4.2	11.3
1970	92.4	14.5	69.0	74.5	18.0	5.0	13.0
1971	120.0	12.1	86.8	98.9	21.1	7.7	13.4
1972	145.6	12.1	104.7	116.8	28.8	10.0	18.8
1973	150.7	11.9	103.5	115.5	35.3	12.0	23.3
1974	155.0	13.1	102.2	115.3	62.7	38.1	24.6

Sources and Notes:

1. All these estimates are derived from the "International Reserves" Tables of the January (1969) and May 1975 issues of International Financial Statistics, and regrettably exclude Communist countries for which no reliable estimates are published.
2. Net IMF lending (line IIA) is the sum of IMF "Gold deposits and investments" and "Use of Fund Credit" minus the undistributed profits of the IMF, allotted here pro rata of quotas: 23% to the US, 49% to other industrialized countries, 5% to OPEC and 23% to other Third World countries.
3. Industrialized countries can be assumed to be the only beneficiaries of the Bank for International Settlements (BIS) and European Fund (EF) reserve credits (=excess of gold deposit liabilities over gold holdings) and of the accumulation of their national currencies as international reserves by foreign central banks.
4. The conservative "guesstimate" of the US share of reserve currency liabilities (2nd column of line IIB) includes only those reported as direct liabilities plus the liabilities of foreign branches of US banks to official institutions reported in Table 19b of the Federal Reserve Bulletin. Liabilities to the BIS and the EF are not reported separately, but are included in the line IIB estimates.
5. Balance-of-payments surpluses or deficits (line I) are measured by the differences between the increases in countries' gross reserves (line III) and in their reserve liabilities (line II). Their net total for the world as a whole is equal, by definition, to the increase in world gold reserves, including those of the IMF, BIS, and EF.

Taken from D. Hegerwa and R. Triffin, "The International Monetary Order" in RIO p.248-49.



Table 5

United States Gold Reserves and Official Liabilities  
(In billions of US dollars)

	Gold Reserves (1)	Official Liabilities (2)	Ratio 2:1 (3)
1949	24.56	6.94	0.28
1950	22.82	8.89	0.39
1951	22.87	8.85	0.39
1952	23.25	10.43	0.45
1953	22.09	11.36	0.51
1954	21.79	12.45	0.57
1955	21.75	13.52	0.62
1956	22.06	14.90	0.68
1957	22.86	15.83	0.69
1958	20.58	16.85	0.82
1959	19.51	19.43	1.00
1960	17.80	21.03	1.18
1961	16.95	22.91	1.35
1962	16.06	24.27	1.51
1963	15.60	26.39	1.69
1964	15.47	29.36	1.90
1965	14.07	29.57	2.10
1966	13.24	31.02	2.34
1967	12.07	35.67	2.96
1968	10.89	38.47	3.53
1969	11.86	45.91	3.86
1970	11.07	46.96	4.24
1971	11.08	67.81	6.12
1972	10.49	82.88	7.90
1973	11.65	92.37	7.93
1974	11.83	119.10	10.07
1975	11.26	125.98	11.19

Source: International Financial Statistics

deficits with their own currency which was accumulating abroad (reserve currency centre countries). Neither of these needed to have recourse to IMF financing and they were in practice not subject to its discipline which eventually applied in practice to the non-reserve currency countries with international payments deficits and in particular the developing countries. The reserve currency centre countries resisted devaluation because they felt such action would be irresponsible, it would deplete the reserve holdings of other nations and be a basic shock to the system. Over time especially in the late 1960s, the dollar became overvalued leading to heavy short-term borrowing and gold outflows, which eventually precipitated a convertibility crisis of the type that occurred in 1971. 1/ The surplus countries on the other hand, were reluctant to lose their competitive edge voluntarily and the "scarce currency" clause of Article VIII.3 was not invoked against them. 2/

9. Thirdly, the system failed to cope with large disequilibrating capital flows. The Fund's articles had assumed that controls would suppress such flows of "hot money". Moreover, confidence in the rigidity of exchange rates would remove the motives for such flows of funds out of one country into another. However, rates of inflation varied significantly among countries and made adjustment of par values inevitable, and the introduction of full current account convertibility made it impossible to prevent substantial leads and lags in trade credits. Transfers of short-term capital began to take place on an increasingly large scale. Once the European countries had accepted the obligations of Article VIII of the Fund's Articles of Agreement in February 1961, governments were seen as being formally committed to complete and lasting convertibility for their currencies. The rise of the Euro-market further weakened monetary authorities. After the revaluation of the Deutschmark and the Netherlands guilder in March 1961, anticipations of possible changes in par values - and even of changes in political leaderships - began to touch off flows of funds of a speculative nature as well. 3/ Within a few years, short-term capital

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1/ See John H. Makin, "Capital Flows and Exchange Rate Flexibility in the post-Bretton Woods Era", Essays in International Finance No. 19, February 1970.

2/ They were also reluctant because the revaluation of their currencies vis-à-vis the dollar would have implied a net deterioration in the real worth of their total reserve assets. See especially Franco Modigliani and H. Askari, "The Report on the International Payments System", International Finance Section, Princeton University, 1971, pp. 8-11.

3/ A number of measures were undertaken by the industrial countries to deal with these flows, e.g. the inauguration of the Basle Agreement at the Bank for International Settlements (BIS) in 1961, the introduction of "Swap" facilities in 1962, the establishment of the Gold Pool in 1961 and the General Agreements to Borrow (GAB) in 1962.



was frequently transferred in massive amounts (see Table 6), occasionally forcing exchange rate changes.

C. The Breakdown of the Bretton Woods System

10. Interest in overcoming these weaknesses provided the impetus to establish the SDRs 1/; however, these weaknesses finally led to the US decision to suspend convertibility of the dollar into gold on August 15, 1971. The breakdown of the par value system followed 18 months later. Two aspects of these developments should be noted. The US had wanted to devalue the dollar in the late 1960s in order to improve her international competitiveness but found it impossible to do so unilaterally since other major countries had made it clear that they would devalue by an equal amount thus nullifying the US's move. The US came to the conclusion that these countries would be persuaded by a continuing accumulation of inconvertible dollar balances. 2/ As a result, "world reserves, expressed in dollars, more than doubled from the end of 1969 to the end of 1972, increasing over this short span of three years, more than they had in all previous years and centuries since Adam and Eve". 3/ The implications of this "benign neglect" policy of the Nixon administration are far reaching. It produced the "dollar overhang" that continues to create major problems for the reform of the international monetary system. It contributed significantly to unprecedented world inflation that shows no sign of abating. It also contributed to the strengthening of the Eurocurrency market. It is noteworthy that on the same

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1/ The establishment of the SDRs was a result of seven years of work and 4 years of intense negotiations. Its establishment was embodied in the First Amendment to the Fund Articles. Early proposals - including Maudling's "mutual currency account" and the various forms of CRU's (collective or composite reserve unit) were intended to be available only to the Group of Ten. These attempts were moderated and eventually neutralized by the IMF Managing Director's view that any new reserve asset created must be available to all Fund members. There was little participation by the developing countries in these negotiations, in spite of their interest as exemplified by the Declaration of Jamaica in 1966, the declaration of the Group of Thirty-One and the resolution of the General Assembly in December 1966. The only opportunity provided to developing countries to participate in the negotiations was through the joint meetings of the Group of Ten and the IMF Executive Board. The Managing Director also met the Secretary General of UNCTAD and the IMF Board held a seminar with UNCTAD Officials in 1967. See Margaret G. de Vries, The IMF 1966-1971, Vol. 1: Narrative (Washington, IMF, 1976) part one.

2/ As recounted by Professor Houthakker in Wall Street Journal of March 16, 1973 (page 10), the strategy of US dollar devaluation was devised in 1968 by a Republican pre-election task force, under the chairmanship of Prof. G. Haberler.

3/ Duncan Ndegwa and Robert Triffin, "The International Monetary Order" in RIO, p. 250.



Table 6

THE SIZE OF SPECULATIVE CRISES

Date	Outflow from	Appreciating Currency	Known Reserve Movements
Oct. 20, 1960	U.S. dollar	gold	\$300 million into Swiss francs in 4 days
March 10-13, 1961	sterling, U.S. dollar	D. mark, Sw. franc	\$900 million of Canadian reserves lost January to June 25, 1962.
May-June 1962	Canadian dollar	D. mark, Sw. franc, guilder	
March 1964	lira		
Sept.-Nov. 24, 1964	sterling		
July-Sept. 10, 1965	sterling		
June, July 1966	sterling	Sw. franc	
May, June 1967	sterling <sup>a</sup>		\$212 million into Swiss francs in first week of June 1967.
Nov., Dec. 1967	sterling, U.S. dollar	gold, D. mark, Sw. franc	\$250 million lost by Bank of England on Friday, Nov. 17, 1967.
Jan., Feb. 1968	Canadian dollar		
March, 1968	sterling, U.S. dollar	gold	\$400 million purchased by Bundesbank on Friday, March 15, 1968.
May, June 1968	sterling, Fr. franc		\$1.5 billion official support to Fr. franc, March or June 1968.
Oct., Nov. 1968	sterling, Fr. franc	D. mark, Sw. franc	\$850 million purchased by Bundesbank on November 18-19, 1968.
April, May 1969		D. mark	\$2.5 billion purchased by Bundesbank in two days.
Sept., Oct. 1969		D. mark	\$245 million purchased by Bundesbank in 1½ hours Sept. 29, 1969.
May, June 1970		Canadian dollar, D. mark	\$640 million purchased by Bundesbank on June 10, 1970.
March-May 1971	U.S. dollar	D. mark, Sw. franc	\$1 billion into European currencies in 40 minutes.
August 1971	U.S. dollar <sup>b</sup>		\$3.7 billion into European currencies August 9-13, 1971.
June 1972	sterling		\$2.6 billion lost by Bank of England, June 15-22, 1972.
Feb., March 1973	U.S. dollar <sup>c</sup>	yen, D. mark	\$3 billion into European currencies on March 1, 1973.

<sup>a</sup> Sterling depreciated from \$2.80 to \$2.40 in November 1967.

<sup>b</sup> Dollar convertibility into gold suspended.

<sup>c</sup> Dollar devalued for second time, and then floated.

Source: Robert Russell, "Crisis Management in the International Monetary System, 1960-1973," paper presented at the March 1973 meeting of the International Studies Association in New York.

Source: Thomas D. Willet, Floating Exchange Rates and International Monetary Reform (Washington, American Enterprise Institute for Public Policy Research, 1977)

day that the US closed the gold window, it also adopted or planned a series of exceptional measures to discourage imports and stimulate exports. These measures served notice of intent that US costs and prices were to be contained and international competition sharpened.

11. A second aspect is that the surplus countries were unwilling or unable to adjust. They had built a whole structure of successful export industries and they had also contained inflation more successfully than others. These countries find it difficult to restructure very rapidly. 1/ The surplus countries are also reluctant for another reason, more political than economic in its thrust. It is the reluctance to turn to deficit spending as an alternative to exports in order to maintain full employment and economic growth. This is because the provision of social goods to replace export goods raises formidable problems regarding economic incentives, effectiveness of public authorities' planning and even the nature of the democratic political system.

12. The emergent system of floating thus appeared to be in the perceived US interests - the provision of a continuously functioning adjustment mechanism that would end her large and persistent deficits, allow her to grow faster and become more competitive in the world economy. 2/ The logic of a floating regime by the major currencies is, in other words, to ensure that any nation's future deficit or surplus will be automatically limited. 3/

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1/ In the course of his address to the 1978 Annual Meeting of the IMF and IBRD on September 25, 1978, the Minister of Finance of the Federal Republic of Germany said that "an economy which for more than two decades became accustomed to produce external surpluses, cannot easily adjust to current account equilibrium. As everywhere, structural changes take time and organizational imagination. Excessive and rapid exchange rate changes would undermine confidence which still is the main basis for investment and growth".

2/ Such a strategy has been made even more significant by the oil crisis. According to Euromoney (October 1978, p. 184), half of US energy needs are met from non-oil fuels, mostly home-produced. Oil supplies the other half, and half of this comes from abroad. American energy production is static. It cannot be increased rapidly. So for each 1 per cent rise in energy requirements, oil imports will tend to increase by 4 per cent. This suggests that the US deficit will be persistent unless other measures are taken to improve her competitive position.

3/ An interesting political implication of such an equilibrium will be the distribution of the cost of military expenditures which are now largely borne by the United States.



D. Movement Towards Reform: From the Committee of Twenty to the Second Amendment

13. The background to the work of the Committee of Twenty was that the US was concerned about the adjustment process and the European and the Japanese concern with the settlement process. There was, for the first time, the added dimension of the interests of the developing countries - and in particular, their concern about the volume and predictability of the flow of real resources to them. <sup>1/</sup> Within the context of some very broad general objectives - promotion of world trade, promotion of economic development and avoidance of inflation - the Committee established a consistent set of principles to govern the adjustment process, the convertibility system, the management of global liquidity and the transfer of real resources to developing countries. The Committee also devised procedures by which the international community would manage the system in accordance with these principles. It sought to reach concrete proposals on the following objectives:

- "(a) an effective and symmetrical adjustment process, including better functioning of the exchange rate mechanism, with the exchange rate regime based on stable but adjustable par values - and with floating rates recognized as providing a useful technique in particular situations;
- (b) cooperation in dealing with disequilibrating capital flows;
- (c) the introduction of an appropriate form of convertibility for the settlement of imbalances, with symmetrical obligations on all countries;
- (d) better international management of global liquidities, with the SDR becoming the principal reserve asset and the role of gold and of reserve currencies being reduced;
- (e) consistency between arrangements for adjustment, convertibility and global liquidity; and
- (f) the promotion of the net flow of real resources to developing countries." <sup>2/</sup>

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<sup>1/</sup> The IMF had taken various measures to deal with some of the concerns of the developing countries, e.g. in the establishment of the Compensatory Financing Facility in 1963 and its insistence that SDRs be allocated to all Fund members. The formation of the Committee of Twenty was the first time, however, that the developing countries' interests were explicitly taken into account and their representation made effective. Most of the major decisions on issues of international monetary reform had previously emanated from organizations of the industrial countries outside the framework of the IMF, especially Working Party 3 of the Economic Policy Committee of OEEC, regular meetings of the Group of Ten in the EIS, the Monetary Committee of the European Community.

<sup>2/</sup> IMF, International Monetary Reform: Documents of the Committee of Twenty (Washington, 1974). For details see Outline of the Reform in Appendix I.



Unfortunately no agreement could be reached on these proposals. <sup>1/</sup> Subsequent negotiations on reform have been carried out in the Interim Committee of the Board of Governors of the IMF.

14. The fifth meeting of the Interim Committee in Jamaica in January 1976 set the seal on the Second Amendment of the IMF articles that limited reform to those areas on which consensus of agreement had been reached. Thus on three central aspects—the exchange rate regime, convertibility of official balances and the reserve system—the Jamaica Agreement virtually accepts the *fait accompli* that has followed the breakdown of the Bretton Woods system. It legalizes, so to speak, the repudiation of previous commitments. IMF members are permitted to adopt the exchange arrangements of their choice; they are not required to assume any binding obligation on official convertibility and settlement of imbalances and they retain full freedom of action on the size and composition of their reserve holdings. The collective interest in countries' policies on each of these aspects is recognized in principle but in a vague and general way that offers little translation into effective action. Specifically, on exchange rates, IMF members undertake to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates (Article IV). The IMF is to "oversee" the international monetary system. It is to exercise "firm surveillance" over the exchange rate policies of members, and it is instructed to adopt "specific principles" for the guidance of all members with respect to those policies". IMF members are also enjoined to collaborate to ensure that their policies on their reserve assets are consistent with the objective of promoting "better international surveillance of international liquidity" (Article VIII, Sect.7), including the objective of making SDRs the principal reserve asset in the international monetary system.

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<sup>1/</sup> A number of reasons have been given for the failure to adopt the recommendations of the Committee of Twenty. The official explanation is that its timing was inopportune; that the unsettled state of the world economy including the outbreak of world-wide inflation, the breakdown of the par value system and the increase in the price of oil was not conducive to agreement. This is, however, unconvincing. It could be argued that it is precisely in situations where drastic changes are needed without provoking international disharmony that the need for an agreed framework of rules is greatest. This is, after all, the circumstance in which the Bretton Woods system was born. Others attribute it to the sheer difficulties of negotiations in the present circumstances (power is more widely dispersed, political solidarity is less close, etc.), as pointed out by A.T. Hayes in his Per Jacobson Foundation Lecture, "Emerging Arrangements in International Payments - Public and Private". However, there has been an important tradition and technique in negotiations since 1944. This tradition has functioned with some success, e.g. in the establishment of the SDR. A possible explanation is lack of political will on the part of the United States since she felt she had already achieved her main interest, viz - the ability to change her exchange rate in order to correct her long-standing deficit - before the reform negotiations even began. See John Williamson, *op. cit.*, pp. 164-184.

15. Yet these collective objectives of the reserve system, and to some extent those of the exchange rate system, cannot be expected to be attained through the action of individual countries in the absence of firm collective commitments. The trouble arises from the excessive reliance placed on discretionary Fund decisions in situations where countries have established interests to defend. It was indeed the lack of such collective commitments that led to the breakdown of the Bretton Woods system.

E. Emerging Trends and Problems of the Jamaica Accord

16. Since the transition to floating, exchange rate developments, even after adjustment in the first round, have been less steady than expected by the advocates of flexible rates. There has also been greater official intervention in the exchange market than under the fixed parity system. Between the spring of 1973 and end of 1976, intervention by the most important central banks totalled US \$200 billion. <sup>1/</sup> Towards the end of 1978, the United States obtained intervention facilities in the amount of US \$30 billion from the German, Swiss and Japanese central banks. <sup>2/</sup> Moreover, it has become apparent that exchange rate changes tend to overshoot what is called for by differences in national price and cost levels, as trade flows respond more slowly than short-term capital movements. For the developing countries, the exchange rate arrangements tend to have destabilizing effects on them, as they are pegged to the currencies of the major industrial nations or the SDR. <sup>3/</sup> The floating of major currencies increases the uncertainty of the developing countries about real export earnings, import prices and foreign exchange values, leads to greater commodity price fluctuations, inhibits the diversification of their trade from traditional trading partners and increases their problems of reserve and debt management. <sup>4/</sup> This is because the exchange rate variations that are required to achieve a balancing effect on the balance of payments of a pegging country are generally different from those which would make possible a correction of the balance of payments of the industrial country to whose currency it is pegged. This unbalancing bias does not disappear even when

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<sup>1/</sup> Wilfred Guth, "The Working of the International Monetary System", Per Jacobson lecture, 1977.

<sup>2/</sup> Union Bank of Switzerland, "Foreign Exchange News", No. 25/78 of December 29, 1978.

<sup>3/</sup> See the conditions for feasibility of floating in William J. Branson and L.T. Katseli-Papafstratiou, "Exchange Rate Policy for Developing Countries", Institute for International Economic Studies, Stockholm, June 1978, p. 7

<sup>4/</sup> W.R. Cline, International Monetary Reform and the Developing Countries, (Washington, Brookings Institution, 1976), p. 14.



the currency of the developing countries is linked to a "basket" of currencies of industrial countries, since what interests every importer (or exporter) is the exchange rate of the currency in which a transaction is being carried out and not an average. These imbalances necessitate increased reserve accumulation by the developing countries.

17. Secondly, the new system relies on private capital markets for adjustment. For the countries regarded creditworthy by the market, the intermediation of the international banking system has been both timely and substantial in scale. Their role has thereby eased their adjustment. However, the capacity of private markets to meet demand for reserves is clearly limited by the market perceived credit-worthiness of the borrowing country. For individual countries, this mechanism clearly discriminates against countries in weak positions that have little or no ability to borrow in international markets on commercial terms or can do so only at high cost. <sup>1/</sup> More generally, however, lending through private banking and capital market sectors has an inherent tendency to cyclical instability and exacerbates problems of debt servicing and debt refinancing since it tends to overlend when times are good and to underlend in times of greatest need. It is a widespread view that the present reliance on medium-term bank borrowing is too risky and cannot be sustained indefinitely. Moreover, market supply of reserves, spontaneously in response to demand produces reserves in the form of holdings of national currencies, both in the traditional reserve centres and increasingly in the Euromarkets (resulting in reverse real transfer of resources). The consequence is to create too much global liquidity (see Table 1) but concentrated in a few countries. <sup>2/</sup>

18. An added element of concern for the developing countries is that this increase in the role of the private markets is seen by some as a substantial substitute for official regulation and not merely as a supplement. The market is seen as providing necessary additional discipline and pressures for adjustment as well as a responsive mechanism operating by the "invisible hand" and automatically to meet legitimate demands for international credit and reserves. In this sense, it is official action in these spheres which they perceive as having a secondary role as supplement. And they see the form of such supplementation as being concentrated on facilities that themselves put maximum emphasis on discipline and adjustment, i.e. on conditional credit facilities rather than on freely available additional

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<sup>1/</sup> IMF, Annual Report, 1978, pp. 48-49.

<sup>2/</sup> For 1977, eleven member countries whose foreign exchange holdings increased by SDR 1 billion or more added SDR 37 billion to their aggregate holdings, accounting for nine-tenths of the rise in the holdings of all countries covered in the "International Financial Statistics", IMF Annual Report, 1978, p. 45.



reserves. As is evident, such an approach involves a number of serious risks for the international monetary system and the international economy as a whole, but it is particularly ominous for the developing countries and especially the poorest among them. This is because an undue burden of adjustment now falls on those countries whose weak position obliges them to seek international assistance. The issue of conditionality (to be discussed below) needs to be seen in this broad context. Its necessary counterpart is adequate overview by the IMF of the structure of the global payments balances as a whole. In the absence of effective international moves to influence and guide the course of the exchange rates on the basis of regular and comprehensive multilateral reviews, the increased surveillance of the IMF over members' domestic financial and economic conditions that is embodied in the Second Amendment entails, in effect, a double standard.

19. Third, the new system does not address itself to the specific problem of the secular decline of commodities in world trade, which, as Sir Arthur Lewis points out, should be "a declared objective of an international monetary system, ranking equally with the maintenance of full employment in the minds of the system's governors". <sup>1/</sup> The Interim Committee was satisfied with the easing of the rules governing the use of the Compensatory Financing Facility. This facility, however, is premised on the assumption that the duration of any cycle in commodity prices is such that a shortfall in export receipts will be reversed and offset within a relatively short period of time; it is inadequate to deal with shortfalls partly because drawings are constrained by quota, and ignores increases in import expenditure, even in a situation characterized by persistent world-wide inflation.

#### F. New Initiatives in Monetary Reform

##### (a) The Adjustment Process and Conditional Liquidity

20. The analysis of the post-Jamaica "system" shows that it is not conducive to orderly adjustment. This is particularly true for most developing countries who do not have "safety net" facilities, <sup>2/</sup> and who will continue to incur structural deficits because of their dependence on capital imports for their development and reasonable economic growth. It is also true of all countries who will continue to incur unavoidable oil deficits. On the other hand, the new exchange rate regime increases

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<sup>1/</sup> Sir Arthur Lewis, "The LDCs and Stable Exchange Rates", The 1977 Per Jacobson Lecture, p. 9.

<sup>2/</sup> Two facilities presently exist for use by some developing countries as safety nets: The Arab Monetary Fund and the Association of ASEAN central banks who have established a multicurrency swap facility intended to help members bridge temporary international liquidity problems.

the burden of developing countries in maintaining higher reserves. 1/ Yet, as pointed out in Secretariat Paper 9 on "Debt", the private banks are already approaching their exposure limits. In parallel to this, a number of highly indebted major deficit countries are reaching the limits of their market credit-worthiness. The poor countries have been forced to reduce their growth rates by cutting down their development programmes. All these factors point to the need for a larger share of official funds especially from the surplus countries in the future financing of payments deficits. In other words, an appropriate adjustment mechanism requires that external funds are obtainable in the amounts needed and with the appropriate maturities on a more permanent basis. In the past few years the assistance provided by the official sector has only covered 20-25 per cent of over-all deficits. A sizeable increase of public credits and aid flows is needed to cope with external payments and debt problems of many non-oil developing countries. As Mr. Guth points out, this applies not only to the poorest LDCs, which have always been exclusively dependent on concessional aid, but also to the more advanced countries which have access to the markets but whose foreign debt structure has become vulnerable and unsustainable in the longer run due to the large share of bank credits with relatively short maturities and high interest costs. 2/ The increase in official credit could be channeled through the World Development Fund (as proposed in SP/21) in the form of programme finance.

21. In addition to the need to augment conditional official liquidity developing countries are concerned with the terms and conditions on which Fund liquidity has so far been provided, i.e. the problem of conditionality. The Fund's Articles (original and amended) do not contain any provision prescribing that the use of Fund resources should be subject to conditions that ensure either the durability of the exchange rate at a realistic level or of a sustainable balance of payments equilibrium. 3/ The articles only

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1/ IMF, Annual Report, 1978, p. 39. The developing countries will continue to accumulate reserve currencies without compensation unless they establish their own currency that will also become a key currency. This means that a link continues to be established between the generation of liquidity and the transfer of real resources, albeit a perverse link, i.e. resources are transferred from the developing countries to those whose currency is accumulated.

2/ W. Guth, op. cit.

3/ At Bretton Woods, "unencumbered access" to Fund resources was considered by many governments other than the US to be fundamental in giving members the confidence they needed to reintroduce an open system of international trade and payments. In this context, it was believed that drawing rights could not be made dependent on Fund approval of a member's economic policies without violating this principle. The US government considered that a country's right to assistance from the Fund was contingent upon its adoption of policies in harmony with the purposes of the Fund. See Richard M. Gardner, Sterling-Dollar Diplomacy, (New York, 1969), p. 262.



require that adequate safeguards be met in order to ensure the revolving and temporary character of the use of Fund resources. Fund conditionality as presently prescribed has evolved in practice, outside the context of the Fund's Articles. According to Horsefield's account, until 1958 standby arrangements with the exception of those with Latin American countries (such as Peru in 1954 and Chile in 1956), did not contain any performance clause in the form of quantitative limits nor were there provisions for phasing. This was true of the United Kingdom standby of December 1957 and 1958 and of the standby with France in 1958. It was only during 1958 and after and particularly starting with Latin American countries that quantitative performance clauses and phasing was introduced. 1/

Exceptions however, remained, and notable among them was the 1967 standby with the United Kingdom which involved drawings through the fourth credit tranche. Though this latter did provide for periodic consultations, it did not contain performance criteria nor phasing.

22. Three problems exist in the use of the IMF's resources. First is the appropriateness of IMF's resources for countries with structural disequilibrium, part of which may be due to difficulties caused by events outside their control - including the structural surpluses of other countries. As already noted, there are asymmetries in the international monetary system. One of them is the asymmetry between surplus and deficit countries. The Fund in its present form is unable to force a rapid adjustment of surplus countries. To the extent that these surpluses have their counterpart deficits, the case for allowing structural change in surplus countries to be phased over an adequate period of time is compelling only if, at the same time, sufficient resources with minimum conditionality are available to enable deficit countries to adjust without deflation. A second asymmetry is between deficit countries with market access to private capital markets and those without. Many of the latter countries are responsibly managed. The imposition of rigorous and comprehensive conditionality on these countries in the use of the Fund's resources in these circumstances is rightly perceived as intensifying the asymmetry in the adjustment process by increasing the burden of adjustment on those debtors who borrow from the Fund, while the same Fund is unable to influence the adjustment of surplus countries, reserve currency countries and other deficit countries with access to private capital markets. One of the results of this situation is that Fund resources, insufficient as they are, are not fully utilized. According to the Fund's report, there were only five cases of drawings beyond the first credit tranche in 1974-76 among the entire Fund membership. 2/ These countries require access to programme finance with as little conditionality as the market, since they often require external

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1/ Horsefield, J. Keith, "The International Monetary Fund, 1945-1965, Vol. I, chronicle, pp. 373-376, 429 and 433.

2/ "A profile of 1967-76: Role Played by Resources of Fund in Financing Payments Needs", IMF Survey, June 5, 1978.



finance but not necessarily domestic adjustment. The establishment of a programme financing facility in the context of a World Development Fund as discussed in the finance paper would adequately meet the needs of these countries.

23. Second is the adequacy or relevance of certain aspects of the Fund's theoretical approach 1/. To begin with, there is always the risk that zealous adherence to a doctrine may lead to overlooking changing circumstances or the emergence of new facts. Stagflation, the blunting of demand policy instruments in connection with cost push factors and the rise of floating rates in the monetary system are a few of the new phenomena. Then, there are the particular circumstances in the relevant prospective recipient countries, especially in developing countries which are in the process of pursuing political and social stability besides achieving economic growth. Also, there are countries with a different political, social and economic structure where allocation of resources takes place in a different way.

24. The IMF is itself aware of the many legitimate questions that may be raised concerning the methodology employed. 2/ Recently, a Fund article has suggested that major qualifications of the monetary approach are necessary in respect of the time dimensions of the theoretical mechanism, the assumptions with respect to the income velocity of money; the unduly sharp dichotomy between "money" and other financial claims; the analogous distinction between "reserves" and other external assets; the broad assumption usually made about capital mobility, the substitutability of goods and services produced in different countries or sectors, and the existence of full employment conditions; the scope for more symmetrical application of sterilization policies; and the need for qualitative judgement. 2/ Since 1978, moreover, the Fund Executive Board has been considering a number of ways to improve the use of Fund's resources in the upper credit tranche. Some of the suggestions which have been put forward include the following.

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1/ Conditionality as presently practised is not only confined to the prescription of ceilings on net assets of the monetary system and on this latter claims on the government and prescription of certain undertakings regarding the trade and exchange system. It also encompasses measures in the field of domestic price restructuring that decontrol wages and interest rates, as well as the insistence that certain measures should be taken before the standby comes into effect, even if this standby implied drawing on the first credit tranche.

2/ Margaret G. de Vries, International Monetary Fund, 1966-71, Vol. I, p. 368 and IMF The Monetary Approach to the Balance of Payments (Washington, 1977).

3/ Carl P. Blackwell, "Reflections on the Monetary Approach to the Balance of Payments", IMF Survey, February 20 and March 6, 1978.

The Fund should be confined to prescribing the minimum necessary measures to correct the payments maladjustments that give to requests for Fund assistance. In particular the Fund should eschew the imposition of conditions to be implemented before the standby comes into effect, it should not impose a restructuring of domestic prices as a condition or as a performance criterion and should not insist on raising interest rates. 1/ Performance criteria should be kept to the necessary minimum to achieve the desired balance of payments movement, and should be macroeconomic in character. Where devaluation is recommended, there is need to have detailed justification. 2/ Moreover, a strong case exists for greater flexibility in the application of general principles, e.g. through the possibility of reducing detailed scrutiny of countries with a demonstrable record of satisfactory adjustment and repayment of past IMF drawings. Finally, the IMF standbys should be placed firmly in the broader context of long-run development. Negotiations between member countries and the Fund should explicitly address the question of ensuring consistency between short-run and long-run objectives.

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1/ There are at least two reasons why it is inadvisable to impose a restructuring of prices as a performance criterion or condition for a standby. Assuming that restructuring implies increases in the prices of public enterprises as well as decontrolling prices in the private sector, this would mean eliminating subsidies that the country found necessary in order to shield its poor from increases in import prices or internal inflation. Secondly, increasing the prices of public enterprises has a budgetary revenue impact and a possible resource allocation impact. As far as the budgetary revenue impact is concerned, so long as a ceiling on net claims of the government is agreed it should not matter from the Fund's point of view whether the ceiling is attained as a result of revenue-increasing measures or expenditure-reducing measures. The resource impact depends on the market structure, which is generally imperfect and therefore prices do not act as good signals for resource allocation. Moreover, decontrolling prices of certain essential commodities in the private sector where market imperfections are in abundance would in effect mean shifting price control from the government that is responsible to the people, to strong private interests that are interested in maximizing private gain. Profiteering would inevitably result with disruptive social and political consequences. There is no doubt that control may lead to corruption but freedom for all in situations where economic power is vastly unequal will inevitably lead to the suffering of the weak and the poor. Raising interest rates should not be set as a condition since in most of these countries moderate increases in interest rates will not increase savings significantly and the demand for credit is not interest elastic.

2/ Such a justification must ensure that supply elasticity with respect to price of exportables is high, that price elasticity of demand for imports is high and an indication that by devaluation the country concerned will be able to improve its external competitive position by reducing the price denominated in foreign currency of some of its export items, and that it is in its interest to do so.



25. Third is the manner in which the Fund administers policy recommendations, especially if they become performance criteria. These latter set forth specific targets which it is the objective of the country to attain. The purposes are served by these clauses. On the one hand, they provide a means whereby the Fund can evaluate the implementation of a member's stabilization programme. On the other hand, they are designed to give a country a guarantee as to the conditions under which it will be able to draw on the upper credit tranche. 1/ The foregoing performance criteria are given target levels for successive periods, usually on a quarterly basis. At the end of each period, the Fund checks compliance with the targets, and if the targets have been achieved, the corresponding fraction of the agreed drawing is released. It is believed by the Fund that performance criteria are "invariably objective" in character, in the sense that a subjective judgement is not necessary in order to ascertain whether they are being observed, with the result that a member will know at all times whether it is able to make a purchase. However, it may be questioned whether in view of the complexities and uncertainties arising in the areas of diagnosis and financial programming already noted, such optimism in the objectivity of indicators is warranted. The Governor of the Bank of England indicated the enormous errors made in the United Kingdom in forecasting even the public sector borrowing requirements, let alone the prospective volume of bank lending to private borrowers. 2/ For many developing countries where data is scantier, the problems of forecasting are formidable. In these circumstances it is not obvious that such a procedure is necessary given the continuing relationship between the Fund and its members. A related problem is the complaint by many countries that the Fund uses an almost "medieval" bargaining technique in negotiating programmes, i.e. it tries to extract maximum concessions from countries where it should aim at offering a country various choices in terms of the speed of adjustment. On a number of occasions developing countries have complained that the Fund staff lack sensitivity for political and social realities which in the last analysis provide the constraints within which technical considerations can in practice prevail. This requires empathy and understanding of Fund staff, especially those who have been decision-makers in national governments where such political and social considerations are always given great weight when economic decisions have to be formulated.

F. (b) The Establishment of an International Reserve Asset

26. A major purpose of international monetary reform - of adopting one set of rules and discarding another - is to reduce uncertainty about the future values of economic variables such as the exchange rate, the size of payments imbalances, exchange controls, the composition of reserves and the rate

1/ Joseph Gold, The Standby Arrangements of the International Monetary Fund, IMF (Washington, D.C. 1970).

2/ Bank of England, Quarterly Bulletin, Vol.18, No. 1, March 1978, p. 36.



of reserve accumulation. On this criterion, the Jamaica accord has not produced a useful reform. This is largely because it did not settle the problem of an appropriate reserve asset in intervention and settlement. No doubt, this may have been due to the conflict of interest among the negotiating groups. In particular, the distribution of seigniorage resulting from reserve creation creates a direct conflict of national interest on a whole series of questions: the rate at which monetary gold is released on to the market, the extent of a reserve currency system and the obligation of the reserve centre with regard to convertibility, the yield on the SDR, the terms on which assets acquired by a substitution facility are to be serviced by the debtor, the distribution of new SDR allocations, etc. Nevertheless, a viable international monetary system requires an agreement on the establishment of an appropriate reserve asset.

27. The Second Amendment declares that the SDR will become the principal reserve asset. But it does not provide means of achieving this objective. In fact, the other provisions of the Second Amendment run counter to this declared goal. The agreements on gold enhance the role of gold in the international reserve system and hence by implication reduce the role of the SDR. <sup>1/</sup> The reliance on private capital markets for adjustment also reduces the role of the SDRs. In fact, SDRs now constitute less than 2 per cent of total liquidity and this proportion will continue to fall in spite of the welcome decision by the Interim Committee to allocate 4 billion SDRs in each of the next three years, 1979 to 1981. This is for two related reasons. First SDRs are provided as increments to existing liquidity and not as substitutes. There is, however, no control over the supply of non-SDR liquidity. Second, is the functioning of the SDR facility. Central banks with balance of payments problems use SDRs to acquire convertible currency. To the extent that the lending countries provide their own currency, which would appear to be quite common, the foreign-exchange component of global reserves rises immediately. The SDR content stays constant. The SDR can only be the centre-piece of the international monetary system if and only if it is given the role of determining the increase in global liquidity and used in the attainment of an improved adjustment mechanism. This requires the demonetization of gold, a significantly reduced role for national reserve currencies and improvements in the characteristics of the SDR itself.

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<sup>1/</sup> Fritz Muehlup, "Between the Outline and Outcome the Reform was Lost" in F.M. Bernstein, ed. "Reflections on Jamaica, Essays in International Finance No. 115, April 1976, p. 37. The Jamaica decision on gold was as follows: first to abolish the official gold price and with it all monetary uses of gold in the IMF; second, to permit central banks to buy gold at any price they care to thus allowing inter-central bank transactions at mutually acceptable prices; third, to sell one-sixth of the stock of gold held by the IMF with most of the profits resulting from the excess of the market over the official price to be used to finance the new Trust Fund being established to aid the poorest of the developing countries, and fourth, to "restitute" a further one-sixth of the Fund's gold to members.

28. In fact, an improved SDR, i.e. one that is a usable instrument of adjustment for all countries, including reserve centres, so that they are able to avoid an excessive expansion of their currency liabilities to foreign exchange authorities and is a suitable store of value, should be welcomed by all countries. It would ensure symmetry among national currencies, avoid the potential instability associated with a multiple asset system <sup>1/</sup> and ascertain that the growth and distribution of world reserves would depend on international authority and not on decentralized decisions of a few countries. It would also meet the legitimate interests of the major groups in the international monetary system. Those with a tendency towards payment deficits would share in the seigniorage of the SDR system. The surplus countries would be assured that the SDR system would set a limit to the supply-determined United States deficit, and hence, less pressure on them to limit their surpluses. The United States would be assured of greater freedom to alter the foreign exchange value of the dollar without negative impact on world liquidity. <sup>2/</sup> In order to move towards the establishment of an "improved SDR" as the principal reserve asset, the following steps are suggested.

29. First a viable improved SDR standard will require means of ensuring against accumulations of currency holdings in national reserves. This can be done by establishing an asset settlement system and a "reserve substitution account". The object of establishing an asset settlement system would be to ensure that all countries, including reserve centres, financed their payments surpluses and deficits by the transfer of reserve assets, non-reserve assets or liabilities arising from the use of non-negotiable credit arrangements (such as Fund drawing facilities and possibly bilateral swap arrangements) rather than through variations in reserve liabilities. In turn, this would call for the establishment of a "Reserve Substitution Account" within the IMF which could create SDRs and exchange them with monetary authorities for reserve currencies which it would hold. The SDRs in question would be indistinguishable in use from those created and allocated by the Special Drawing Account. Any country holding currencies in its reserves would be free to sell them for SDRs to the Reserve Substitution Account. It would be used to assure asset settlement as follows. If national official holdings of any currency in the Reserve Substitution Account should decline in any period that country would be entitled to obtain SDRs to the amount of the excess from the account in exchange for its own currency, and conversely.

30. During the deliberations of the Committee of Twenty, the above techniques were seriously considered. The Europeans and Japan favoured these techniques.

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<sup>1/</sup> Otherwise the logic of the broadened key currency system would suggest the establishment of a "Third World Currency" based on leading surplus OPEC members and strong NICs currencies.

<sup>2/</sup> Robert Z. Aliber, "National Preferences and the Scope for International Monetary Reform", Essays in International Finance, No. 101, November 1973.



At that time, the United States was opposed to them. Recently, however, there are some indications of United States interest in the substitution account. In view of possible substitution of major currencies by the major creditors - a substitution which according to Dr. T. de Vries, the US alternate Director to the IMF - is already taking place in the case of the Arab oil producers, the establishment of the Substitution Account has become an attractive proposition to the United States. <sup>1/</sup> As Dr. Vries correctly points out, no amendment of the new Fund's Articles would be necessary. Article V, section 2 (b) provides that "if requested, the Fund may decide to perform financial and technical services ... that are consistent with the purposes of the Fund". Thus, if agreement were reached among member countries to set up a Substitution Account, such an arrangement could be administered by the Fund under its present powers. Assuming that such an account was set up, currencies accumulated in it would bear an SDR value guarantee and might therefore carry a somewhat lower interest rate than that previously paid on such balances when held in national reserves. The interest accruing to the Account, should, however, exceed that paid by the Account on the additional SDRs created and sold for currency, and this excess might be available for general purposes, such as financing the proposed World Development Fund. Part of the amortization paid by the issuing countries might also be made available for similar purposes. <sup>2/</sup>

31. Second, the SDR must be made an attractive reserve asset. This should be reflected in its valuation or in the rate of interest, reconstitution provisions and expanding the range of uses to which it can be put. Most of these issues have been and continue to be under discussion within the IMF. At the last Interim Committee meeting (1978), it was agreed to raise the rate of interest to 90 per cent of the weighted average of short-term interest rates in the five member countries with the highest quota. Its present valuation is in terms of a basket of currencies. This method of valuation, however, is not adequate and may affect its future central role. To begin with, the fact that a change in the value of any currency in the basket is reflected to a lesser degree in the SDR does not make the value of the SDR easier to predict than the value of any single currency. In addition, although the SDR is more stable than some currencies in the basket, it may be less stable than others. In future work on the reform of the international monetary system it may be useful to consider valuing the SDR relative to goods. For all countries,

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<sup>1/</sup> See Dr. T. de Vries, "A Fundamental Change in US Policy", Eurooney, January 1979, p. 90. It is also interesting to note that Rep. Reuss has also recently called for the establishment of a Substitution Account. (See International Herald Tribune, January 23, 1979, p. 7.

<sup>2/</sup> J.M. Fleming, "Towards a New Regime for International Payments", Journal of International Economics, Vol. 2, No. 4, September 1972, p. 365.



but particularly for the developing countries, the attraction of having an SDR that is of stable value relative to traded commodities is obvious.

32. Third, there should be a genuine move towards the demonetization of gold. As already noted, at Jamaica a decision was taken to dispose of one-third of the IMF's gold stock, half of it by sale in the market and the other half (one-sixth) by restitution to members. The profits made on the portion sold would be set apart in a Trust Fund for giving balance of payments assistance to countries with 1973 per capita income of SDR 300 or less. In order to further this process, the remaining two-thirds of the earlier IMF gold stock, amounting to SDR 5.4 billion at the official price, should not be restituted to members (as this defeats the purpose of gold demonetization), but should be sold to private holders. <sup>1/</sup> The accruing profits should be deposited in a Trust Fund which could be used as an interest subsidy to low income borrowers both with respect to the Fund facilities and in the World Development Fund. A second stage is for the demonetization of nationally-held gold stocks, which might be achieved as follows. IMF member countries, voluntarily or at their discretion, could deposit their gold in an established IMF "gold substitution account" in return for an SDR credit balance. This balance would be made available in two instalments. The first instalment, payable immediately, would be on the basis of a relatively low valuation, e.g. the now defunct official gold value of the SDR of SDR 35 per fine ounce. SDRs to this equivalent would be available immediately to the country making the gold substitution. The substitution account would then hold the gold with a view to its liquidation in market sales over time, with liquidations governed not by a predetermined schedule, but by available market opportunities. As and when such sales took place, the premium in the price realized above the price credited in the first instalment would be available for a second distribution. The second distribution would then be divided in some proportion, e.g. 50-50 between the depositing country to which the gold was attributable and an allocation to the World Development Fund.

33. Fourth, an improved SDR system must provide for a link to development assistance. This is for a number of reasons. One of the rationale for an SDR link with development assistance is that the SDR scheme as a whole confers a collective global benefit as compared with the alternatives. Unlike the gold standard, it allows for the creation of reserve assets without absorbing real resources. Unlike the dollar standard it allows for general participation in decision-making and therefore an international

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<sup>1/</sup> One recent stumbling block to accelerated demonetization of gold is the EMS (the European Monetary System). According to the Economist of January 13, 1979, p. 60, all the participants in the EMS are expected to deposit with the European Monetary Fund 20 per cent of their dollar reserves plus 20 per cent of their gold in return for ecus (European Currency units).

distribution of influence. For some or all of this, to be distributed for a collective purpose - such as the provision of additional development assistance - is then as rational as for it to be distributed pro rata to individual participants to use for individual or collective purposes as they wish. In other words, "whereas reserve creation has in the past involved resource transfers to gold producers and reserve centres, it would be appropriate in a reformed system that a greater part of the benefit derived from the switch to reserve creation in the form of SDR should be channeled on an agreed basis to developing countries". <sup>1/</sup> As the Committee of Twenty pointed out the link would provide substance for the general agreement on the desirability of promoting the flow of financial resources to the developing countries. A second rationale is the fact that the IMF quotas are inappropriate as a basis for distributing SDRs. The original purpose of quotas was not to allocate "owned" reserves but to determine and finance drawing rights, and was thus biased towards countries with relatively large reserves and convertible currencies. <sup>2/</sup>

34. A number of arguments have been made against the link, of which two are the most important: first, it is argued that the linking of SDRs to development assistance would exacerbate the difficulties of building up confidence in the new system. Apart from the fact that confidence in SDRs appears to have been built up by now, <sup>3/</sup> the only viable method of building confidence is to construct a system with objective characteristics that deserve confidence. And what is needed to engender confidence in the SDR system is the assurance that other countries will always be willing to receive SDRs when a country needs them and that those with the responsibility of paying the interest service on SDRs will continue to do so. It is hard to see how these conditions would be violated by the link. Second it is argued that since a link would enable developing countries to purchase real resources from the developed countries, it would violate the original intention of deliberate costless reserve creation. It would impose two types of costs upon developed countries - the direct national cost of the real resources transferred to developing countries and the indirect global cost of the inflation resulting from the financing of extra spending by the developing countries without an increase in world productivity. These objections have been countered by a number of writers as well as the developing countries' deputies in the

<sup>1/</sup> IMF, International Monetary Reform, Documents of the Committee of Twenty, p. 96.

<sup>2/</sup> Hawkins R.G. and Rangarajan, C., "On the Distribution of New International Reserves", Journal of Finance, 25 (September 1970), pp. 881-891.

<sup>3/</sup> See "Use of SDRs Was at Record High Level", IMF Survey, January 22, 1979, p. 20.



Committee of Twenty. 1/ They point out that in so far as the introduction of the SDR system produces "social saving", extra resources become available for increasing development without donor countries having to reduce their own standards of living. A number of studies show that the addition to global demand as a result of link allocations is likely to be extremely small in relation to global demand as a whole. 2/

35. The SDR facility has been in operation for almost a decade. During the preparatory phase, the problem of distribution did not receive much attention; the concern was with its creation. Now that the SDR has been firmly established the issue of distribution has become paramount. 3/ Fortunately, the link has been supported in principle by a number of industrial countries. It has been endorsed by Italy since 1968. It acquired important support in the United Kingdom; the House of Commons Select Committee on Overseas Aid having recommended an SDR link during its 1970-1971 session. 4/ France and Japan

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1/ See especially Maynard, G.W., "Special Drawing Rights and Development Aid", Overseas Development Council, Occasional Paper No. 6, September 1972; G. Maynard and Graham Bird "International Monetary Issues and the Developing Countries: A Survey", World Development, Vol. 3, No.9, September 1975; and Y.S. Park, "The Link Between Special Drawing Rights and Development Finance", Essays in International Finance, No. 100, September 1973.

2/ Maynard found out that an extra US \$1 billion of aid channeled through a link would represent barely 0.05 per cent of their combined GDP. See Maynard op. cit. Cline also found that the impact of the link on export demand would be very small, see W.R. Cline, International Monetary Reform and the Developing Countries (Washington: Brookings, 1976), p. 37.

3/ It is interesting to note, however, that as early as 1969, the Sub-committee on International Exchange and Payments of the Joint Economic Committee of the US warned that "while logical arguments can be advanced to support distribution of SDRs strictly according to IMF quotas, this arrangement appears discriminatory. Once the facility is in operation, its discriminatory aspect will be more obvious and may become a source of intensified antagonisms on the part of the developing nations towards wealthy members of the IMF". See the Committee's Report, A Proposal to Link Reserve Creation and Development Assistance, (Washington, 1969 b), p. 10

4/ House of Commons, Report of the Select Committee on Overseas Aid, Session of 1970-1971, House of Commons Paper 299 (London, HMSO), paragraphs 180-181.



told the UNCTAD III meeting of their support for the link. It has been noted that towards the last stages of the Committee of Twenty discussions, only two countries opposed the link. 1/

36. A number of modalities of an "organic" aid link have been suggested, viz - direct allocation to developing countries, direct allocation to development institutions and an indirect allocation to development institutions. The "Group of Twenty-Four" indicated their preference during the Committee of Twenty that the interests of the developing countries would "be best served by an increase in their share of SDRs by means of direct country allocations by the IMF, to be used for development services". 2/ This preference was due to the consideration that aid from the link would be channeled through the World Bank Group that does have a preference for project aid over programme finance and where the decision-making powers are tilted against the borrowing countries. 3/ These considerations would be considerably altered by the establishment of the World Development Fund. In these circumstances, direct allocation to the World Development Fund would be preferable. There is a further advantage of choosing this alternative. It might then be possible to exempt the proposed World Development Fund from the obligations to pay interest on its own use of these SDRs and to square the books by paying no interest to the developed countries receiving the SDRs in settlement of aid contracts; these countries would thereafter be counted as the allocatees for purposes of charging interest on subsequent use, and the regular interest provisions would then apply. 4/

F. (c) Commodity Stabilization and Compensatory Financing

37. The present world concern with monetary reform presents a rare opportunity to adapt the world monetary structure so as to foster the growth of world production and trade, and in particular so as to contribute to the stabilization and expansion of trade in primary products. One means of doing this that should be pursued is embodied in the possible valuation of an improved SDR with reference to commodities. This will take time to achieve. In the interim there is need to improve the existing compensatory financing facilities.

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1/ Fred Hirsch, "Current Issues in International Monetary Policy with Special Reference to the Interests of the Developing Countries", (UNCTAD/FIN/14; 30 September 1976).

2/ IMF, International Monetary Reform: Documents of the Committee of Twenty, p. 95.

3/ G. Maynard and G. Bird, "International Monetary Issues and the Developing Countries: A Survey", World Development, Vol. 3, No.9 (September 1975), p. 633.

4/ Fred Hirsch, "An SDR Standard: Impetus, Elements and Impediments", Essays in International Finance, No. 99, June 1973, p. 9.

38. Three compensatory financing facilities currently exist. Of these three, the compensatory financing facility (CFF) of the IMF is the oldest and was set up in 1963 as a recognition of the extreme instability of export earnings that is characteristic of primary producers. Essentially it is a scheme designed to protect the balance of payments deficits of members from severe shortfalls in export receipts occurring due to the instability of world commodities markets and caused by factors largely beyond their control. Members may draw foreign currency only up to specified amounts of their quota from the IMF to compensate for a failure to total merchandise export earnings to rise above a five-year arithmetic average. Use of the facility has, however, varied over its fifteen-year history. Total drawings up to the end of 1978 amounted to 4.4 billion SDR, distributed over time as follows: 1963-1966, 97 million SDR; 1966-1975, 1134 million SDR; 1976-1978, 3,127 million SDR. The difference in use over time is due to changes in the liberalization of the facility in September 1966 and December 1975. The liberalization decision of the Fund in 1975 was the main reason for expansion in its usage. This suggests that the level of drawings is very sensitive to terms and conditions under which the facility is offered. Note for example that the amount drawn in three years after the last liberalization is little over two-and-a-half times the amount drawn in the first thirteen years of the facility.

39. The great drawback of the CFF in its present form is that it finances a small proportion of the identified export shortfalls of members. The IMF statement to the UNCTAD Committee on Invisibles and Financing Related to Trade on 2 November 1978 said that 33 per cent of actual shortfalls were compensated for. <sup>1/</sup> Moreover, drawings under the CFF are subject to conditionality imposed by the IMF which prevents its utilization in severe conditions.

40. Second is the EEC's STABEX facility, which provides a compensation on account of a shortfall in the export receipts from any one of the 36 commodities and by-products if one of the member countries is dependent upon one of these commodities. A dependence threshold has been determined which is much more reflective of the real needs of these countries than the IMF compensatory financing facility. Under the STABEX, even if a member country has had higher earnings from another commodity, its capacity to draw upon

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<sup>1/</sup> UNCTAD estimates based on IMF formulae on calculating export earnings shortfalls shows, however, that the shortfalls were compensated up to an amount of 10 to 11 per cent only. TD/B/C.3/152. The differences may be due to the fact that IMF compensates on the basis of a "judgemental" basis rather than using its own formula. The judgemental basis is, however, disadvantageous to developing countries. See I.S. Gulati, "Compensatory Financing: Adequacy of Present Arrangements and New Prospects", Paper presented at Queen Elizabeth House, Oxford, 9-10 December 1978.



this facility is not impaired. The financial transfers under STABEX are in the form of grants or interest-free loans. The repayment of the interest-free loan occurs when the export earnings from the relevant product recover. Under the STABEX, an amount of EUA 375 million (European Units of Account) has been allocated for a period of five years, 1976-1980. This amount is divided into five instalments of EUA 75 million. Transfers under the STABEX are shown below:

<u>STABEX Transfers, 1976 and 1977</u>			
(millions of EUA)			
	<u>1976</u>	<u>1977</u>	<u>Total</u>
Grant	41.0	27.5	68.5
Loans	31.8	8.8	40.6
	<u>72.8</u>	<u>36.3</u>	<u>109.1</u>

41. It should be noted that with the exception of wood, wool and iron ore, all the products covered by STABEX are tropical products for which there is no protected production in the European Economic Community. Moreover, a degree of processing for any one of the eligible commodities is not possible because it will probably be removed from the list. Apart from these factors, there is no guarantee that transfers will be made even when the eligibility conditions have been met because of a ceiling on the amount of resources available. Although the STABEX permits the transfer, if all the eligibility conditions are met, equal to 100 per cent of the shortfall, in adverse conditions, due to limited availability of funds a rationing may have to be introduced. The scheme contains various "escape clauses" to meet such contingencies.

42. The scheme is, however, unique in some respects. It allows differential treatment for the least developed countries. They have decided advantage in obtaining compensation and the compensation is offered on generous terms. But the total amount available is limited. For example, the IMF compensatory financing facility permitted drawings to the member countries of the STABEX in the amount of SDR 367.6 million in 1975 and 1976 while the STABEX transfers amounted to EUA 109.1 millions. <sup>1/</sup>

<sup>1/</sup> The rate of exchange was EUA 1.022 per SDR in 1975 and EUA 0.968 per SDR in 1976. For 1975-76 the EUA may therefore be taken as equivalent to the SDR.



43. Third is the Arab Monetary Fund which entered into force on 2 February 1977 <sup>1/</sup> and is also empowered to provide financial assistance to a member experiencing balance of payments difficulties through its compensatory financing facility. It is envisaged that the difficulties occurring as a result of a decrease in its receipts from exports of goods and services or a large increase in the value of its imports of agricultural products following a poor harvest, will be considered grounds to seek compensatory financing from the Arab Monetary Fund. Such drawings shall not exceed 100 per cent of the member's paid up capital and shall be paid back over a period of one to three years. The Arab Monetary Fund has not yet determined the mechanics of the operation of its facility.

44. In addition, two proposals have been circulated in recent years which contain some elements of the STABEX scheme. Of the two proposals, the Swedish proposal was introduced at the Seventh Special Session of the United Nations General Assembly in September 1975 and the second proposal was submitted by the Federal Republic of Germany before the World Bank/IMF Development Committee in September 1978. The details of these proposals are appended as appendix II.

45. Although there are advantages in the proposed schemes that are not found in the CFF, the latter offers broad advantages to most developing countries. The following proposals are made to improve its functioning. First there is need to eliminate quota limits. At the Bretton Woods Conference, one of the key elements agreed upon was the multi-purpose quota. Initially, the main functions it had to perform were three, namely to determine:

- i) the subscription or contribution of each member to the resources of the Fund;
- ii) the drawing entitlement of members; and
- iii) the voting power and representation.

As time progressed, the role of the quota was greatly expanded. It determines not only access to the resources of the general account as envisioned in the original Articles of Agreement, but determines all the facilities in the Fund. Some of these facilities, e.g. the CFF are of such different nature from the general account and pursue such different objectives that it may be pertinent to ask whether the single quota in its present form can adequately and equitably meet all the objective sought after under these new facilities. It is obvious that the multipurpose quota will tend to place the greatest constraint on the amounts drawn under the facility because the quota is regressive and unrelated to the needs of compensatory financing.

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<sup>1/</sup> IMF Survey, 6 March 1978, pp. 69-71.

46. Enlarging Coverage to Include Service Earnings. Inclusion of earnings from services has been proposed several times. This proposal would be very important for countries dependent on tourism and remittances of labour migrants.

47. Measurement in Real Terms. As noted above, the purpose of compensatory financing is to stabilize the trend in the purchasing power of export earnings. Accordingly, the trend value of export earnings should be measured in real terms taking full account of movements in real prices. This is because ultimately the rationale for foreign exchange reserves and balance of payments lending is to forestall the need for harmful cutbacks in the flow of imports which may adversely affect development plans.

48. Repayment Terms. Under the existing arrangements the terms of repayment (repurchase) are such that a member country is required to repay the amount drawn with interest within a period of five years regardless of whether or not the export earnings of the country have recovered or its balance of payments has improved. There is an obvious asymmetry here. It would appear reasonable to link the schedule of payments with the pattern of fluctuations in export earnings. Unless repayments are made only when overages occur, the schedule of payments could easily conflict with the occurrence of future shortfalls and therefore mitigate any benefits of associated drawings from the facility.

49. The removal of quota limitations, the enlargement of coverage to include services, the measurement of the shortfall in real terms and the introduction of flexibility in repayments would require a greater volume of resources than is at present funding the facility. However, an appropriately conceived and adequately endowed CFF should perform a counter-cyclical function: to the extent that these objectives are met, the operations of the facility in a given year will tend to reduce shortfalls and drawings in succeeding years.

50. The 1975 decision on the liberalization of the CFF called for a review of that decision which was undertaken in May 1976 and March 1977. The IMF decided to make no change in the decision in May 1976 but in March 1977 decided to increase from SDR 3 billion to SDR 4 billion the amount of outstanding drawings that would call for an automatic review. The one-third increase reflected the anticipated increase in quotas under the Sixth General Review of Quotas. The IMF also decided to review the decision again prior to 31 March 1979. The IMF Board is scheduled to discuss the functioning of the CFF in early February and mid-March 1979.





MARCH 2 1979  
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Mrs. Boskey

836/2/36

cc WDC  
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22376Z OMPI CH (Tlx Number)

From: GENEVA, MARCH 2, 1979

FOR BOSKEY, IRD, WASHINGTON

AAA UNDERSTAND THAT BRANDT COMMISSION SECRETARIAT PROPOSAL FOR A NEW GLOBAL FINANCING FACILITZ, WORLD DEVELOPMENT FUND, TO FINANCE IMPORTANT GAPS LEFT UNCOVERED BY EXISTING IFIS, WAS IMPORTANT TOPIC DISCUSSION IN COMMISSIONER'S MEETING WHICH ENDED EARLY THIS WEEK. SIX UNCOVERED AREAS INCLUDE PROGRAM FINANCING, COMMODITY STABILIZATION AND RELATED FINANCING, MANUFACTURING EXPORT FINANCING, ECONOMIC INTEGRATION SUPPORT, ENERGY AND MINERAL FINANCING, AND DEBT REORGANIZATION FINANCING.

THIS MATTER WILL BE FURTHER DISCUSSED IN COMMISSION'S NEXT MEETING IN MAY. AS DISCUSSED WITH YOU AM NOT FOLLOWING SECRETARIAT AND COMMISSION'S WORK CLOSELY FOR REPORTING PURPOSES TO WASHINGTON. HOWEVER, BANK OFFICE GENEVA, AS WELL AS UNCTAD, IMF, AND GATT ARE EXPECTED RECEIVE SOMETIME NEXT WEEK FROM SECRETARIAT ONE SET PAPERS DISCUSSED COMMISSION'S LAST MEETING. I PLAN KEEP DOCUMENTS USE GENEVA OFFICE.

BBB HAVE STARTED COLLECTING BACKGROUND INFORMATION AND DOCUMENTS ON MANILA AGENDA ITEMS AND EXPECT PREPARE BRIEFS ON EACH ITEM OF IMPORTANCE TO BANK, INCLUDING ISSUES, POSITIONS OF GROUPS, SUBGROUPS, AND BANK POSITION AND INVOLVEMENT IF ANY. EXPECT TO COMPLETE DRAFT BRIEF END MARCH-FIRST WEEK APRIL, AFTER CF AND TDB. AM ALSO IN PROCESS WRITING REPORT ARUSHA BUT BELIEVE IN LIGHT MY BACK TO OFFICE REPORT, REPORT ON ARUSHA COULD BE PART OF OVERALL BACKGROUND BRIEF FOR MANILA. PLEASE TELEX WHETHER YOU WISH RECEIVE SEPARATE REPORT ARUSHA, WHICH I PROMISED AND WILL WRITE IF USEFUL FOR WASHINGTON.

REGARDS, BURNEY

BNVNJYA WASH DC



836/2/35

February 6, 1979

Mr. William Clark  
Vice President, External Relations  
World Bank  
1818 H Street, N.W.  
Washington, D.C. 20433

Dear William,

Please find attached an article from this week's Der Spiegel on some aspects of Willy Brandt's present thinking. The story deals with Mr. Brandt's happiness about the softening of Chancellor Schmidt's attitude towards LDCs and with some major issues of his commission's work -- the urgency of increasing ODA, protectionism and access to markets, the need of the Third World to have an efficient secretariat, access to capital markets, the possibility of a development "tax", more self-help and cooperation among LDCs, less emphasis on big and showy projects in favor of food production and basic health programs ... A full translation seems to be warranted.

The story says that starting in March, Mr. Brandt will put his ideas on paper with the help of a prominent English author. Fritz Fischer, who has provided Der Spiegel with much of the information, says that March may be a bit early. The "prominent English author" is, of course, Anthony Sampson.

Looking forward to seeing you next week, I am

Yours sincerely,

*Martin*

H. Martin Koelle

Attachment

cc: Mr. Alun Morris

HMK/br

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## Vorgeschobener Posten

**Mit drastischen Maßnahmen, etwa einer „internationalen Steuer“, will Willy Brandt mehr Milliarden für die Dritte Welt lockermachen.**

S ofort nach seiner Rückkehr aus der Karibik ließ sich Bundeskanzler Helmut Schmidt mit der derzeit prominentesten Halbtagskraft der Republik verbinden: mit seinem Vorgänger, dem SPD-Chef Willy Brandt. Er habe, so berichtete Schmidt dem Ex-Kanzler, auf der Nord-Süd-Konferenz von Jamaika eingesehen, daß sich die Bonner Politik künftig stärker als bisher der Sorgen und Nöte der Dritten Welt annehmen müsse.

Wenn der deutsche Regierungschef auch keine Kehrtwendung machte, so kommt doch seine Kompromißbereitschaft niemandem so gelegen wie dem SPD-Vorsitzenden. Brandt, der sich im Herzzentrum von Hyères an der Côte d'Azur mit viel Trimmen und wenig Arbeit von den Folgen eines Herzinfarkts erholt: „Sehr hilfreich.“

Denn Brandt hat sich als Vorsitzender einer 17köpfigen internationalen Expertenkommission für Entwicklungsfragen verpflichtet, bis zum Frühjahr einen Bericht mit konkreten Vorschlägen zu präsentieren, wie das Wohlstandsgefälle zwischen den reichen Industrienationen im Norden und den armen Entwicklungsländern im Süden der Welt verringert werden kann. Sein Anspruch ist hoch: „Die Regelung des Nord-Süd-Verhältnisses ist die soziale Frage für den Rest dieses Jahrhunderts.“

Brandt weiß, wie schädlich es sich auswirken kann, wenn die beiden ersten Männer der SPD in dieser „sozialen Frage“ entgegengesetzte Positionen beziehen würden: Brandt als missionarischer Anwalt der Dritten Welt, sein Vize Schmidt als hartgesottener Syndikus der Industrienationen.

Mit Genugtuung registrierte Brandt daher im Protokoll der Jamaika-Konferenz ein Zugeständnis, gegen das sich der Kanzler bisher hartnäckig sträubte: Erstmals will sich Bonn an der Finanzierung eines Gemeinsamen Fonds zur Stabilisierung der Rohstoffpreise beteiligen.

Doch der Ex-Kanzler weiß auch, daß damit die Konflikte noch lange nicht ausgeräumt sind. Denn was seine Kommission bislang auf fünf Sitzungen in Gynich bei Bonn, in Mont Pèlerin (Schweiz), in Bamako (Mali), in Tarrytown (USA) und in Kuala Lumpur (Malaysia) ausgebrütet hat, wird weder die ungeteilte Zustimmung der Dritten Welt noch den Beifall der Industrienationen finden.

Bereits im vergangenen Jahr hat Brandt keinen Zweifel daran gelassen,



daß die Industriestaaten mehr als bisher an die armen und ärmsten Länder zahlen müßten — allen voran die reiche Bundesrepublik, die derzeit nur 0,27 Prozent ihres Sozialprodukts für öffentliche Entwicklungshilfe ausgibt, weniger als Schweden (0,99 Prozent), Holland (0,85), Frankreich (0,63) oder Großbritannien (0,38 Prozent).

Der neueste Bericht des OECD-Ausschusses für Entwicklungshilfe (DAC) kam Brandt gerade recht: Mit grüner Tinte unterstrich er einige Passagen und schickte, als Material für den Nord-Süd-Report, das Papier an sein Genfer Kommissionsbüro.

Der Ende letzten Jahres ausgeschiedene DAC-Vorsitzende, Maurice J. Williams, hatte in seinem Bericht geklagt, daß die Industriestaaten ihren Anteil an der Entwicklungshilfe von durchschnittlich 0,33 Prozent auf 0,31 Prozent ihres Bruttosozialprodukts (BSP) absinken ließen. „Das enttäuschende Ergebnis“, so Williams, „ist in erster Linie dem weiteren drastischen Rückgang des BSP-Anteils der Entwicklungshilfe der Vereinigten Staaten und der Bundesrepublik Deutschland... zuzuschreiben. Gerade diese Länder besitzen aber innerhalb des DAC, ja in der Welt überhaupt, die größten und stärksten Volkswirtschaften.“

Und wie die Brandt-Kommission befürchtet, wird die Kluft zwischen Armen und Reichen durch protektionistische Maßnahmen der Industriestaaten noch breiter: Gerade die hochentwickelten Länder sind dabei, ihre Märkte gegen Produkte aus Entwicklungsländern abzuschotten, etwa gegen Textilien aus Taiwan. Folglich will Brandt den freien Zugang zum Markt zu einer zentralen Forderung seines Berichts machen.

Gleichrangig daneben soll ein Vorschlag stehen, der ebenso wie die Handelspolitik Emotionen aufheizen wird: zusätzliche Entwicklungsmilliarden durch Einsparungen in den Rüstungsetats. Brandt: „Wenn in der Welt täglich über eine Milliarde Dollar für Waffen ausgegeben werden, rüsten wir uns zu Tode.“

Um den Entwicklungsländern eine wirksamere Interessenvertretung zu ermöglichen, sollen diese Staaten zunächst einmal qualifizierteres Personal für die internationalen Verhandlungen rekrutieren. Denn erst mit eigenen Sekretariaten könnten sie den organisatorisch haushoch überlegenen Industrieländern wenigstens „administrativ-intellektuell“ (ein Brandt-Mitarbeiter) einigermaßen ebenbürtig werden. Perfekten Bürokratien wie der EG oder der OECD stehen auf Seiten der Dritten Welt bislang lediglich Mehrheiten in UN-Gremien gegenüber.

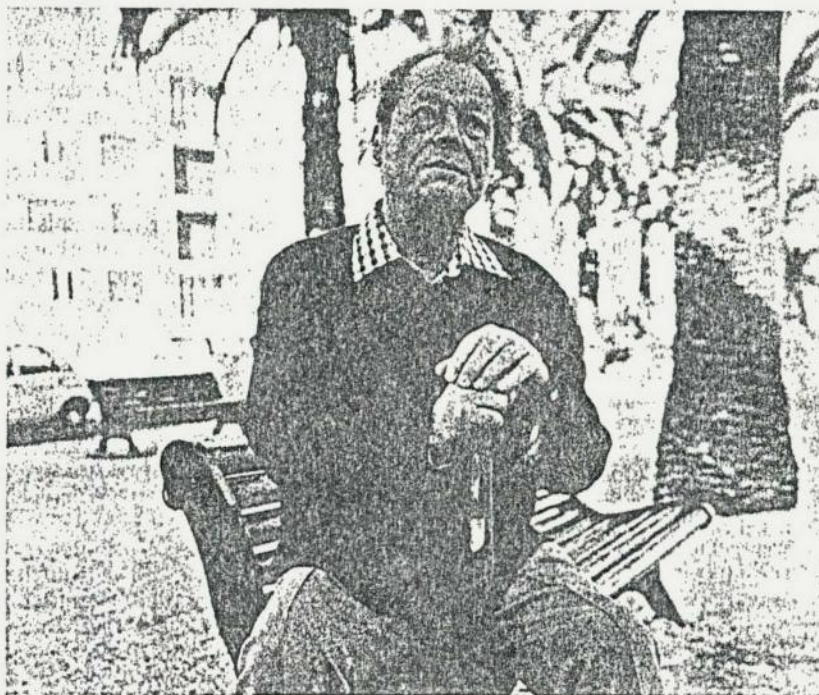
Und damit die Entwicklungsländer ihre Budgets langfristig und genauer planen können, sollen — nach den

Vorstellungen der Brandt-Kommission — künftig die Reichen nicht nur für die Sicherung stabiler Rohstoffpreise aufkommen, sondern auch ihre direkten Hilfszahlungen regelmäßiger leisten. Bisher bestimmten allein Haushaltsrecht und Etatführung des Spenders Zahlungsweise und -zeitpunkt.

Überdies will die Brandt-Kommission den Entwicklungsländern einen gesicherten Zugang zum privaten Kapitalmarkt verschaffen. So soll durch internationale Vereinbarungen erreicht werden, daß arme Staaten nicht in einseitige Abhängigkeit von einigen wenigen Großbanken geraten, die ihre Kredite sofort zurückziehen, wenn sie woanders eine günstigere Verzinsung

Vorrangig, so formulierte es ein Mitarbeiter, müßten die Entwicklungsländer zu mehr Selbsthilfe und Zusammenarbeit untereinander finden und auf Prestigevorhaben verzichten. Die Brandt-Kommission will deshalb in ihrem Bericht die Dritte Welt auffordern, kein Geld mehr für allzu aufwendige und oft unnötige Objekte auszugeben.

Anstelle großer spektakulärer Industrieprojekte soll durch eine umfassende Agrarreform dafür gesorgt werden, daß zunächst einmal die eigene Nahrungsmittelproduktion erhöht und somit der hungernden Bevölkerung geholfen wird. Und anstelle aufwendiger City-Kliniken, deren Unterhalt oft das gesamte Gesundheitsbudget



Rekonvaleszent Brandt\*: Barfuß-Ärzte für die Dritte Welt?

erzielen können. Folge: Das Land steht vor dem Staatsbankrott.

Schließlich stellt die Kommission derzeit auch Überlegungen an, ob die Industrieländer nicht durch zusätzliche Steuern zugunsten der Dritten Welt geschröpft werden könnten. Brandt: „Bei der Frage der verstärkten Finanzmittel für die Entwicklungsländer sollte man auch die Möglichkeiten einer internationalen Steuer nicht ausschließen.“

Die Modelle reichen dabei von einer generellen Abgabe bis hin zu einer „Brain-drain“-Steuer: Industriestaaten, die farbige Studenten nach dem Studienabschluß im eigenen Land halten und beschäftigen, müßten dem Heimatland eine Ausgleichsabgabe für den „Abzug von Verstand“ zahlen.

Doch auch den Entwicklungsländern will Brandt einiges zumuten. Denn, so der Kommissionschef: „Die Erwartungen sind oft unrealistisch hoch.“

\* Im französischen Kurort Hyères.

verschlingt, sollen „Barfuß-Ärzte“ (Brandt) und im Land verteilte Ambulatorien für die medizinische Betreuung sorgen.

Schließlich sollen gerade die Länder der Dritten Welt alternative Energieformen wie Sonne, Wind oder Wasser nutzen und dadurch Devisen für den teuren Ölkauf sparen.

Daß er sich mit all diesen Vorschlägen Ärger einhandeln wird, weil er vor dem allgemeinen Bewußtseinsstand herläuft, ist Brandt klar. Doch der SPD-Chef fühlt sich, wie bei seiner Ostpolitik, als die treibende Kraft einer politischen Umorientierung. Ab März, wenn er wieder gesund ist, will er, gemeinsam mit einem renommierten englischen Schriftsteller, seine Vorstellungen zu einer neuen Weltordnung ins Reine schreiben.

Und er hofft, „daß meine Landsleute mich nicht zu lange auf vorgeschobenem Posten stehenlassen.“



836/2/34

Class of Service: TELEX Date: MARCH 2, 1979  
Telex No.: 22376 CH Originators Ext: 72173

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0 START  
HERE

1 TO BURNEY, C/O WIPO

CITY/COUNTRY GENEVA, SWITZERLAND

MESSAGE  
NO.:

4 THANKS UR TELEX ON COMMISSION. WDC HAS COPIES PAPERS DISCUSSED  
5 SO BY ALL MEANS KEEP SET YOUR OFFICE. HE WILL SEE FISCHER  
6 AND BRANDT NEXT WEEK WHILE WITH RSM IN GERMANY. AGREE NO NEED  
7 FOR ADDITIONAL SEPARATE REPORT ON ARUSHA. WDC AND EYE WILL BE  
8 GENEVA FOR ACC. IF DRAFT BRIEF COMPLETED BY THEN, COULD BRING  
9 BACK AND HAVE IT REVIEWED AND REACTIONS READY FOR YOUR ARRIVAL  
10 HERE. REGARDS, BOSKEY

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SUBJECT:	DRAFTED BY: <b>SEBoskey/rob</b>
CLEARANCES AND COPY DISTRIBUTION:  <b>cc: Mr. W. Clark ✓ Mr. Chateney</b>	AUTHORIZED BY (Name and Signature): <b>Shirley Boskey</b>
	DEPARTMENT: <b>IRD</b>
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836 / 21 33

Mr. M. Yudelman

March 7, 1979

L. Peter Chatenay

Brandt Commission

1. I will be seeing Edgar Pisani in Paris on March 21 at his request. He took the place of Mendes-France on the Brandt Commission and is responsible for the chapter on Agriculture in the Commission's report. Pisani indicates the title of the chapter will be: World Food Order.

2. I assume Pisani who is a Senator and worked with my father some years ago, will want to hear from me how the Bank sees the world food problem and what solutions it would wish to see mentioned by Brandt. I cannot, obviously, give him technical answers. But if your department could give me, most informally, a brief on the main points I should make, I would be most obliged.

cc: Mr. William Clark

LPChatenay:mmh



836/2/31

# OFFICE MEMORANDUM

TO: Files

DATE: March 12, 1979

FROM: William Clark *W.C.*

SUBJECT: Note of Conversation between R.S. McNamara and Willy Brandt in Bonn, March 7, 1979

Willy Brandt, who appeared in good but slightly less vigorous health, greeted R.McNamara warmly and there followed 90 minutes of extremely good humoured exchange of views.

Willy Brandt began by saying that the Commission had quarrelled in Kuala Lumpur but had been more friendly and positive in Switzerland. He had raised the question of disarmament because he believed that a reduction in arms was a moral necessity if man was to survive. He recalled that RSM had spoken on the same theme in Montreal in 1966.

RSM agreed that even if the money saved were wasted there should be less expenditure on arms; it was a double benefit if the savings by rich and poor countries were spent on development.

W.B. picked up the point that there would be savings by LDCs and emphasised the importance of that for peace "probably the safest place for arms is Europe, and the least safe Africa or Asia".

W.B. said that the non-economic sides of development were of particular interest to him, but he found the Secretariat too economist minded. They had said they could not consider population, he felt his Commission could not fail to consider population; he intended to do so with help from Bob Cassen. He found the Third World rather cowardly about population repeating the Bucharest formula that nothing could be done till they had been helped to raise their standards of living. W.B. had talked with Mahler of WHO about this and he was going to provide a paper (possibly a chapter in the final report) on health in relation to development. Also about women and the family structure in relation to development.

RSM assured W.B. that he thought it was quite realistic to imagine that programs started in early 1980s would have a major impact on development by end of century. The Bank had decided to invest in health, but in preventive rather than curative and along far less sophisticated lines than modern western hospital medicine.

W.B. described his timetable and plans for the Report. It would consist of a foreword by himself which he alone would sign, then more detailed recommendations probably signed by the whole Commission. There would be something like 18-20 recommendations of a fairly broad nature. This volume would be short, some 150-200 pages and he would be helped in drafting it, by Antony Sampson whom he already found very sympathetic and useful. There would be a further volume - probably later -

containing secretariat papers intended for experts.

The first volume would begin to be drafted between now and the May meeting. It would be brought forward officially at the July (Vienna) meeting and redrafted in the light of that meeting. It would be finally discussed at the October meeting; signed and dated about January 1st, 1980; presented to Secretary-General Waldheim about January 10, and published in the main languages from Zurich almost simultaneously. Members of the Commission would personally take it to Heads of Governments with whom they were personally acquainted and try to "sell it" to those countries. One climax to all this would be the Special General Assembly of May (?) 1980.

RSM welcomed this program and said that he agreed with W.B.'s comment that essential to any selling job was the moral basis for action. Both agreed in a friendly exchange that the moral basis must be fundamental and one must build on that a sense of cooperation in a mutual interest.

W.B. mentioned that he had been very impressed by the revival of moral interest e.g. the German churches' proclamation about Unctad; the World Council of Churches' emphasis on this for Protestants, Pope Paul's emphasis for Catholics, the reception of Pope John Paul II in Mexico - a developing country; even the moral/religious basis of the revolution in Iran.

W.B. said the Report would rest on three legs: Survival, Justice, Jobs. Olof Palme had suggested that Jobs be put first; Ramphal had said no put Justice (and so moral basis) first because that could be sold to LDCs and the U.S.

On the financial and monetary aspects W.B. said that he leaned strongly to some form of automatic transfer of resources from North to South, but he hesitated to use the word Tax.

RSM said he favoured the report using the word tax; it was what the world would be coming to by year 2000 anyway. W.B. said could it be a tax on trade without discouraging trade? In any case it was agreed the 0.7% of G.N.P. was a sort of tax, it should be so labelled and greater efforts made to meet the target. W.B. said he was considering a 'tax' on all - rich and poor - which would produce funds redistributed towards the poor. R.S.M. favoured this idea.

On Bretton Woods institutions W.B. said there was a good deal of hostility shown to the I.M.F., which had not emerged at the New York Meeting attended by de Larosiere. Both Part I and Part II countries were critical of its failure to take proper account of development needs. RSM said that the Fund was not unimprovable, in general it was a guardian of financial common sense, and in so far as it was failing



it should be changed and strengthened.

W.B. said the Bank was generally praised - though not in Drag Avramovic's paper. But there was a feeling that there were certain gaps in the transfer of resources, e.g. program loans, medium term funds, debt restructuring etc. And there was the feeling that Bretton Woods institutions were founded before the Third World had emerged, and were basically Anglo-American, and how could they be expected to meet the current needs of LDCs? W.B. said that in the choice between creating a new institution and reforming the present ones, the Commission was oddly divided; for instance, Palme and Yaker were for reform, Heath was for a new institution (preferably in Europe, most preferably in London!). In any case Peterson and Botero and perhaps one or two other Commissioners would come to Washington on March 26 to examine this problem and report back to the May meeting.

RSM responded by saying that the real need was for more finance and better terms for the LDCs. To create a new institution to do this would take a very long time and would detract from the support and effectiveness of existing institutions - which were under strain in getting support from the OECD countries at this moment. It would be far better to argue toughly for such reform as would largely satisfy the LDCs but could be accepted by the OECD countries. If this was not acceptable to Bank or Fund or the major shareholders then a new institution might be justified, though if it could not command the support of the OECD powers nor the confidence of the private financial markets it might be a dead duck.

W.B. said that one objection raised to the Bank was that it was too big and too centralised. RSM responded by pointing to the importance of a critical mass which could really do the job of research and monitoring effectively for the Third World and indeed for the global economy. There was not enough work done on the crucial issue of mutual interest, for instance on commodity prices. The South was very concerned by this lack of a firm basis for cooperation.

W.B. "The South is concerned and suspicious". It suspects that both Basic Needs and Mutual Interest are plots to deprive them of their due by the North.

RSM. There is not enough examination of international economics, too much emphasis on purely national problems. How national policies affect the global economy, e.g. national effects on international inflation, the U.S.\$ overhang etc. need examination. Probably the Third World does need a Secretariat of its own, but it should not be used just for confrontation with OECD.

W.B. said there was need for much more research on energy - where is coal or solar power not being used fully? How much energy has mankind to spare? RSM mentioned the Board discussion on our energy paper.

The Soviet East. W.B. spoke confidentially of his contacts with the Soviet and China. Breznev is a very sick man really run by a group of aides; he does feel that arms expenditure is a waste, the money should be used better. The experts he told to meet Ohlin and Egon Bahr showed some interest in trade; so especially did the Poles and Hungarians.

The Report will try, without polemics, to move the Russians and Chinese forward (W.B. will show it to Russians and Chinese before publication). It will try to show that the industrial world is not just the North-West but includes the Soviet and Eastern Europe.

Both then discussed East-West relations and Salt II. It was agreed that the failure of Salt II, if negotiated, to be ratified would be a great disaster.

WDClark:sf



836/2/30

March 14, 1979

Dear Anthony,

It was very pleasant seeing you the other day at the Mill, and I am very grateful to you for taking time to come out. I am sorry there were quite so many people at lunch, which was due to the difficulties of trans-Atlantic organisation.

I had a long conversation with Willy Brandt and Fritz Fischer myself before McNamara arrived, and I realised that they are depending enormously on your assistance, not just in writing but in thinking and giving expression to the consensus which Willy Brandt hopes to produce - and failing that to the policies he will produce on his own.

In strict confidence I am sending you a copy of the memorandum of the conversation that took place between McNamara and Brandt, I would rather you didn't mention it to any of the parties, but I think it may help you to grasp some of the nuance that will have to be taken into account.

I am going to be back in London for April 6th and 7th, and will try and give you a ring on the Friday to see if there has been any progress in these affairs.

With best wishes,

Yours ever,

William Clark

Anthony Sampson, Esq.,  
27 Ladbroke Grove  
London, W.11  
England

WDClark:sf

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1979 MAR 22 PM 3:05  
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MAR 22 1979

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MARCH 22, 1979 GENEVA

FOR WILLIAM CLARK, WASHINGTON

CASSEN REGRETS THAT HE NOW HAS TO BE IN LONDON FROM MARCH 30 TO APRIL 4. ALTHOUGH POOR SUBSTITUTE FOR DINNER, HE SUGGESTS YOU CALL HIM GENEVA HOME PHONE 46 59 65 OR LONDON OVER WEEKEND 31. HE WILLING RETURN GENEVA VIA PARIS AROUND APRIL 4, IF YOU WISH.

AS YOU KNOW CARGILL AND CASSEN DINING GENEVA MARCH 24, WHICH HAPPENS TO BE ROBERT'S BIRTHDAY.

REGARDS, BURNEY

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INTBAFRA WASH DC





## OFFICE MEMORANDUM

836/2/27  
Mr McNamee  
to see  
important

TO: Mr. William Clark

DATE: March 26, 1979 P.D.C.FROM: L. Peter Chatenay **DECLASSIFIED****RESTRICTED**SUBJECT: Meeting with Edgar Pisani**MAY 20 2013****WBG ARCHIVES**

I spent an hour with Pisani on March 21 in his Senate office. He had prepared and already sent to Brandt a draft on the subject of food in the world. He had been advised that the chapter in the Brandt Commission report on that subject was to be entitled: the new international food order. He had discarded that title. It was totally inappropriate. The central and most obvious trait of the situation today was precisely the absence of any "order" in the world food sector, witness the recent collapse of the wheat agreement negotiations. There could be no "new order" since there had never been one.

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Pisani sees the need to consider the subject of food in the world under the triple angle of: the large continental states, the least developed and most seriously affected states and finally the systems under which some rationale and order can be brought to bear on the resolution of the main components, such as trade, of the world food situation. He says, for example, that the GATT system is no longer adapted to the requirements of the world today, especially if one considers the interests of the poorest and weakest nations.

He also sees the need for logic and order in the consideration of development financing as between grant-type assistance, the World Bank/IDA type of flows and the private banking circuits. The way in which these channels are used, on an overall international level, seems to him entirely haphazard. It cannot possibly bring optimum results. He wonders whether the World Bank should not be asked to play a much greater and more central role in establishing a measure of order and rationality in the overall allocation, levels and types of global financial flows for development. With all the expertise gained in its consultative groups and CGIAR, should not the Bank take on the functions of a "gare de triage" (dispatching center), a role which little by little might outweigh its investment activities? It is conceivable that other financial institutions such as the regional development banks or specialized funds such as IFAD might take up the slack on the investment side, leaving the World Bank free to become the central body so greatly needed which could lead the international community and develop agreed, flexible and realistic policies and aid packages which would vastly improve the efficiency of aid now flowing from so many diverse sources, under such varied conditions and towards such a variety of beneficiaries. In short, let the Bank become less of a bank and more of an aid coordinating body.

To this, I commented that the Bank's influence could not be divorced from the relative importance of its lending and its overall financial position. Pisani answered that he did not mean to suggest we should cease to lend. Rather, we should give much greater weight to our role as a coordinating agency for international aid operations, bilateral and multilateral.



March 26, 1979

Pisani "being a good soldier" will ask Brandt whether he can pick our brains on some of the points included in his draft. If Brandt agrees, he will send a copy of the draft and ask for our views.

He said he was now quite optimistic about the end result of the commission's labors. There were three groups among the members: the conservatives exemplified by the Canadian member, the Third Worlders of various persuasions with Ramphal playing a particularly useful role in presenting his group's views in an intelligent and forward-looking manner and, in the middle, the four "social democrats" (Brandt, Palme, Pronk and Pisani) who had a good chance, on many points, of obtaining consensus from both sides. All this was quite exciting thanks, in large measure, to the chairman who after his rest seemed more relaxed but still determined. His mood could only help him in his dual function of leadership and conciliation.

About French politics, Pisani (now on the socialist side) thinks that the Socialists have a chance to turn into the sort of party Schmidt leads in Germany. Barre is following a narrow, single, track in his attempt to make the French economy competitive. While the purpose cannot be challenged, the Government's disregard for the social consequences of its policy is bound to cause its downfall. If the French Socialists keep to their present course (i.e. staying away from the communists and from the center), they could reach the 35% of the electorate which would allow them to act as do their German political brethren.

On the international scene, Pisani is terribly pessimistic. Iran, Afghanistan, China and Vietnam, South Africa, the Middle East, all are proof that the prevention and settlement of international disputes are beyond the leaders' reach. One day, three or four years away he thinks, our luck will run out. A bad miscalculation and there will be war. He believes Soviet restraint on the Chinese border is due mainly to the Soviet conviction that Peking's "acrobatics" in swinging widely from one side to the other of the political and economic spectrum will end in a fall. The about-face towards the West cannot stick, in the Soviet view.

I left Pisani with these impressions. An intelligent and clever politician (who was, most would agree, a very able minister of agriculture) finds the Brandt exercise highly stimulating because of the nature of the problems considered, the way Brandt is directing the exercise, the mix of personalities around the commission's table and the importance he hopes the report will have. He spoke with feeling about Heath's helpful contributions. He agrees with Brandt that the Geneva secretariat is off on a track which does not fit the commission's true purpose. He wants the report to deal with the big issues, "with global issues globally conceived". He would like the Bank to play the key role in bringing order into the international aid field. Without a more rational allocation of resources and better prepared technical and financial "packages" tailored to the specific and changing needs of individual developing countries (especially the weakest), the likelihood that the North can help the South find manageable and lasting answers to the poverty problem will necessarily remain small.

cc: Mrs. Boskey, Mr. Merriam, Mr. Steckhan

LPChatenay:mmh

836/2/26

27 Ladbroke Grove London W11 01-727 4188

28th March 1979

William Clark, Esq.  
The World Bank  
1818 H Street N.W.  
Washington D.C. 20433

Dear William,

Many thanks for your note and the most interesting memorandum. I'm slightly alarmed to feel that they expect so much, but I'm also flattered and quite stimulated. I hope they can get closer to agreement.

Unfortunately I'll be in France and Spain between April 5th and 16th so we'll miss each other, but I expect I'll be over in Washington again before long so that we can gossip there.

Much enjoyed seeing you and sorry I had to rush off so early. God, I envy you that mill.

Yours ever,



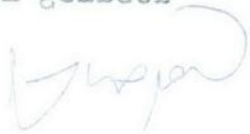
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many thanks for your note and the most interesting

Dear William

Washington D.C. 20542  
1818 H Street N.W.  
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William Clark, Esq.

58th March 1979

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23/3/79