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PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

Memos for the record
1974 (Jan. - June)

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President's papers - Robert S. McNamara Memoranda for the Record - Memoranda 08

MEMORANDUM FOR THE RECORD

792/k/35

Meeting to Discuss Population Paper, June 17, 1974

Present: Messrs. McNamara, Chenery, Clark, Stern

Mr. McNamara had read the population white paper and felt that some technical parts were too intricate. Most of the paper was not new and not definitive and did not contain any good evaluation of the Bank program. He still felt that it was one of the best statements available on the subject and should be published, even if it is not a major advance.

It was agreed that the paper would be edited and turned over in final form to the publishers by July 1. Mr. Clark would provide a detailed schedule of the work up to the publication and distribution of the finished paper.

A preface would be included and signed by Mr. McNamara in the printed version. A type-script version would be distributed to the Board as soon as it was available and it would carry a short introductory note from Mr. McNamara.

AL
June 18, 1974

792/2/34

Meeting to Discuss the Proposal for a Development Council, June 14, 1974

Present: Messrs. McNamara, Broches, Knapp, Rickett, Chenery, Adler, Stern

Mr. McNamara said that the proposal was for heads of the Bank and the Fund to send a resolution to the Governors to be decided upon at the Annual Meeting. The draft resolution should describe the composition and function of the development council and propose its terms of reference. Mr. McNamara was doubtful as to the usefulness of the continuation of the technical committee on transfer of resources.

Mr. McNamara proposed a tentative agenda for the development council as being the outlook for economic development of the LDCs, change in prices of commodities and energy, the change in OECD economic activity and proposals to deal with these problems. He suggested that the Bank and Fund jointly prepare a paper on the subject and assign staff members to maintain cooperation between the two institutions. He nominated Mr. Stern for this function.

Sir Denis Rickett described some of the aspects of the proposals put forward. The composition of the committee would be approximately the same as the Bank's Board representing country groupings but there would be a number of associates allowed for each committee member leading to an inordinately large number of people in the room (about 200). The permanent council when constituted would meet and select its own chairman. There was a proposal for a possible interim committee to be chaired by a minister. The Board of the Fund would be the "service group" of the interim committee. He maintained that the development council must pay close attention to work going on in other institutions, mainly the United Nations. He mentioned that Mr. Morse had expressed support for the idea that the technical group on the transfer of resources should be continued for a few months. Mr. McNamara felt it was better for him and Mr. Witteveen to work out the relevant documents as a basis for a postal vote of Governors and avoid the continuation of the technical committee. He suggested that the energy paper to be completed in July would serve as the basis for the first discussion of the permanent committee.

Mr. McNamara would discuss these issues with Mr. Witteveen and later with Mr. Morse. Sir Denis Rickett was asked to report to the Board on the subject the following Tuesday.

AL

June 18, 1974

MEMORANDUM FOR THE RECORD

792/2/33

Meeting to Discuss Energy Paper, June 14, 1974

Present: Messrs. McNamara, Knapp, Chenery, Benjenk, Adler, Baum, Stern, Tims, Haq, Hulley

It was decided that background papers to the main document would not be distributed, with the exception of No. 1 and No. 4 which would be available as background material.

Mr. Chenery described the background of the paper and said that staff level discussions had concluded that commodities other than oil should be better treated. The projections of oil prices were not as central as might be assumed since the build up of reserves in oil-producing countries would be almost identical under a wide band of price assumptions, due to the elasticity of demand.

Mr. Knapp suggested and it was agreed that projections should be simplified so as not to compare with the projections made in the interim report of March 1974, nor with 1973, but with an earlier period. He felt that the effect of collusion between commodity producers was subject to great uncertainty and should not be included. This was also agreed.

Mr. McNamara asked that the projections of growth in developing countries and of ODA be reconciled. As the paper now stood, 0.7% of GDP in ODA in 1980 would amount to \$56 billion, while the paper states a requirement of only \$14 billion in assistance.

Mr. Benjenk said that the price increases of oil are depicted as the main culprit causing international inflation and economic difficulties for developing countries. Mr. McNamara said that to deal with this a paragraph should be inserted to give the connection between oil prices and the prices of other commodities with inflation in developed countries and the effects on developing countries. Throughout the paper the words should be carefully weighted so as not to place the Bank as an adversary to either oil producers or consumers. Mr. McNamara asked that an introductory paragraph stating the purpose of the paper and a section with summary and conclusions be added. This first part would be signed by Mr. McNamara when the paper is distributed to the Board.

As to recommendations for action, Mr. McNamara suggested certain restructuring of the recommendations and asked that a detailed program of action not be included.

As a sequence to the energy paper, Mr. McNamara suggested the preparation of a paper stating how the Bank and Fund jointly should deal with the problem of developing countries, particularly in relation to the new suggestions for a development council.

It was decided that the paper would be closed for further suggestions from the staff on June 21, distributed as a consistent redraft on June 26 for a meeting with the same group at 4:00 p.m. on June 28. Then would follow any revisions necessary over that weekend for printing on Monday, July 1, and distribution to the Board Tuesday, July 2, for a discussion by the Board on July 30.

AL

June 18, 1974



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

792/2/32

OFFICE OF THE PRESIDENT

June 13, 1974

NOTE FOR THE FILES

Mr. Hori told me this afternoon that Minister Fukuda had asked him to tell me Japan was interested in increasing its share in the subscribed and paid-in capital of the Bank. Such action would presumably occur in connection with an increase in Fund quotas.

Robert S. McNamara

Copies to:
Mr. Knapp
Mr. Cargill
Mr. Broches
Mr. Adler

792/2/31

June 12, 1974

MEMORANDUM FOR THE RECORD

I assured de Groote this afternoon that if Board action on the Turkish power loan is deferred into early July, we would provide protection to Turkey against an increase in the interest rate and we would consider it a Fiscal '74 action in any evaluation of the total amount of Bank lending to Turkey in Fiscal '75.

RMcN

cc: Mr. Benjenk

MEMORANDUM FOR THE RECORD

792/2/30

Meeting to Discuss Outline of Rural Development Paper, June 5, 1974

Present: Messrs. McNamara, Knapp, Baum, Stern, Yudelman, Gulhati

Mr. McNamara said that the outline and its accompanying note gave the impression that the allocation of work was very vague. He asked that Messrs. Baum and Stern arrange to put people full time on the work to produce the background material in the paper. He also asked that there be emphasis on the universe of the problem of small farmers and that sufficient statistics be included to give an over-all view of this problem. The landless should be mentioned in the paper.

It was decided that the paper would go to the Board in early December but that a detailed outline with work assignments should be sent to Mr. McNamara as soon as it was ready.

AL

June 5, 1974

MEMORANDUM FOR THE RECORD

792/2/29

Meeting to Discuss 1974 Annual Meeting Speech, June 5, 1974

Present: Messrs. McNamara, Chenery, Stern, Clark, Maddux

Mr. McNamara felt that the technical note prepared by DPS was complicated and difficult to transform into a speech. However, this, in addition to the March 5 paper, section 2 of the Five-Year Plan paper, and Mr. Chenery's paper on the adjustment to energy crisis due June 10, would be used as inputs.

Mr. McNamara asked that a number of technical notes be prepared to state in concise terms certain problems:

1. Trade restrictions--the note should show the impact on LDC economies of removal of existing trade restrictions and should also state the reasons for loss of markets by certain LDCs, such as India and Kenya.
2. Analysis of the difference in terms of trade between Latin American and Asian developing countries and the reason for these differences.
3. The impact of inflation on the lowest 40%.
4. Action by OPEC countries to deal with the problems of LDCs and the results in terms of disbursements.
5. Capital requirements--the need for capital stated in terms of concessional, intermediate and market-term funds by country groups and year for a given growth rate of LDCs' economies.

Certain main themes should be included in the paper:

1. The Bank program will be increased by \$8 billion in real terms over the next five years.
2. This is still inadequate in terms of the needs of LDCs.
3. Other donors have not adjusted ODA estimates to inflation in the effect ODA needs to be indexed.
4. The basic imbalance in the world economy created by increasing commodity prices needs to be financed (Mr. Chenery's suggestion).

Technical notes should be completed by June 14. Mr. Maddux should complete the first draft by July 1. Messrs. McNamara, Chenery and Stern would discuss a sequence of thought to constitute the backbone of the speech during the following week after all have read Mr. Chenery's draft of the revised energy paper.

AL
June 5, 1974

MEMORANDUM FOR THE RECORD

792/2/28

Meeting on Compensation, May 20, 1974

Present: Messrs. McNamara, Chadenet, Damry, Clarke and Gabriel and Shoaib

Mr. Chadenet recapitulated some of the results of meetings in the Fund during the previous week. It was agreed that the Bank would have to inform the Fund rapidly of its salary decision since the Fund would be having its meeting the following day. The Bank would then have a chance to reconsider any differences with the Fund on May 22. Mr. McNamara asked that, for the time being, transitional arrangements resulting from the switch from the retirement age of 65 to 62 be postponed.

AL
May 21, 1974

MEMORANDUM FOR THE RECORD

Meeting to Discuss Treatment of OPEC Countries in the Bank's Five-Year Program,
May 20, 1974

792/2/27

Present: Messrs. McNamara, Knapp, Benjenk, Chaufournier, Knox, Schulmann

Mr. McNamara asked that OPEC and other oil-producing countries should be categorized into three groups:

1. Those needing external capital flows for considerable time into the future;
2. Countries which would need the Bank's assistance but where loans should be offset by borrowing; and
3. Countries which do not need external capital flows.

It was agreed that, for the purposes of the Five-Year Program, countries in category (1) would be Algeria, Indonesia, Nigeria, Trinidad & Tobago and Bolivia (and presumably Peru).

Category (2) would include Ecuador, Iran, Iraq, Venezuela, Gabon, Oman and Bahrain.

Category (3) would included Abu Dhabi, Kuwait, Libya, Qatar, Saudi Arabia.

Mr. Schulmann was asked to revise the Five-Year Program paper and submit a marked-up copy to Mr. McNamara showing what alterations he would make as a result of this classification.

AL
May 21, 1974

MEMORANDUM FOR THE RECORD

792/2/26

Fertilizer Paper and Program, May 15, 1974

Present: Messrs. McNamara, Knapp, Baum

It was decided that the fertilizer paper be distributed to the Board for information, although a discussion would probably be requested by Directors. The title would be changed to "Fertilizer Requirements of the Developing Countries" and it would be issued as soon as possible.

Mr. Baum would be responsible for implementation of the program outlined in the paper and would submit to Mr. McNamara within a few weeks a proposal for organizing and staffing the effort. Mr. McNamara said he wanted the fertilizer effort to be closely tied to the Bank's agricultural program and estimates of agricultural production. He said that it was essential to focus on India, which accounted for most of the projected demand in LDCs.

Mr. Baum said that he envisaged a small division in the Industrial Projects Department staffed by two to three new staff responsible for planning of the fertilizer effort as opposed to those appraising which would be existing staff.

AL
May 15, 1974

MEMORANDUM FOR THE RECORD

792/2/25

Meeting to Discuss Energy Paper and Annual Meeting Speech, May 8, 1974

Present: Messrs. McNamara, Chenery, Tims, Hulley and Miss Yudin

Mr. Chenery had submitted an outline of the energy paper which Mr. McNamara found acceptable. He said that projections of the effects of various petroleum and commodity prices should be made but that they should be seen more as scenarios than definite predictions. In the long run the Bank should recruit a highly qualified expert to work on the problem of commodity prices and the effects of possible commodity agreements.

Mr. McNamara emphasized the need to categorize the developing countries carefully when analyzing the impact of the increased commodity and oil prices on the economies of LDCs.

Under the section on the international community Mr. McNamara said that it is important to tabulate carefully what the international community is in fact doing.

It was agreed that there would be a staff draft ready by June 1, a draft to Mr. McNamara by June 10 for distribution to the Board by July 10 and discussion before the Board recess.

Mr. Chenery said, and Mr. McNamara agreed, that the speech should be a statement to the world on the material covered in the energy paper. Mr. McNamara said that in addition the speech should contain the Bank's five-year program and other actions he may wish to propose. It should include the "litany" stating the plight of the poorest.

As agreed earlier, the draft of the speech would be completed by May 31 and Mr. McNamara would review a revised outline by May 20 at the latest.

cc: Mr. Maddux

AL
May 8, 1974

MEMORANDUM FOR THE RECORD

792/2/24

Meeting on Compensation, May 8, 1974

Present: Messrs. McNamara, Knapp, Broches, Chadenet, Chenery, Gaud, Shoaib, Clark, Damry, Clarke, Gabriel

The following proposals were agreed to be included in the paper for the Board.

1. A 10.2% flat salary increase.
2. Elimination of extended ranges.
3. A switch from net to gross pensions.
4. A choice of retroactivity from full to two-thirds, one-half and one-third with costs shown.
5. A change from 65 to 62 years retirement age.
6. Withdrawal benefits unchanged.

The paper would be finalized with editorial comments from those present and distributed to the Board the following day.

AL
May 8, 1974

MEMORANDUM FOR THE RECORD

792/2/23

Meeting to Discuss FY74-FY78 Program, May 2, 1974

Present: Messrs. McNamara, Knapp, Adler, Cargill, Haq, Schulmann, Stern

It was agreed that the financial projects should show a five-year program for the IBRD of \$21.9 billion with a 6% difference between the Bank program and the sum of the regional programs.

The reduction of the IDA transfer should be left in the paper to be drafted by May 17. Some material on the economic growth of developing countries should be taken directly from the December Five-Year Program paper.

A meeting to discuss the May 17 draft would be held on Friday, May 24.

AL
May 3, 1974

792(2)22

May 10, 1974

MEMORANDUM FOR RECORD

Mr. McNamara talked with Gardner Cox today. Mr. Cox agreed he would do Mr. McNamara's portrait and that it would be about the same size as the others in the Defense Department.

Mr. Cox will do the portrait in the fall or winter and will call Mr. McNamara when he is ready.

Ronnie Deane, Office Services in DoD, informed of arrangements this date.

MEMORANDUM FOR THE RECORD

792/2/21

Meeting on Pensions and Salaries, May 2, 1974

Present: Messrs. McNamara, Chadenet, Clarke, Gabriel

Mr. Clarke reported from discussions with the Staff Association and asked Mr. McNamara's decision on a number of points in order to be able to write the paper to the Board.

It was decided that the paper would propose the 10.2% increase for cost of living. The extended ranges would be deleted and Mr. Clarke should attempt to explain to the staff the Bank's policy of paying 5% more than competing organizations. It should also be explained that the Bank does not profess to pay or intend to pay more than every other competing organization as the staff had claimed.

On pensions the staff had expressed strong preference for retirement at the age of 62 years and, as a second priority, retroactivity. It would accept less than two-thirds retroactivity if 62 retirement age could be obtained. It was decided that the paper would go forward, proposing one-half retroactivity, 62 years retirement age and a 19.5% contribution rate with the unchanged withdrawal conditions.

AL
May 2, 1974

MEMORANDUM FOR THE RECORD

792/2/20

Meeting to Discuss Land Reform Paper, April 30, 1974

Present: Messrs. McNamara, Aldewereld, Alter, Adler, Baum, Bell, Chaufournier, Chenery, Damry, Weiner, Haq, Nurick, Stern, Wapenhans, van der Tak, Yudelman, Dosik, Varon

There were several minor modifications made to the conclusions and policy recommendations contained in the paper, and it was decided the paper would be distributed to the Board for discussion as scheduled.

AL
May 1, 1974

792 / 2 / 19

Meeting to Discuss Implementation of Nairobi Speech, April 30, 1974

Present: Messrs. McNamara, Baum, Chenery, Stern, Yudelman, Kearns, Christoffersen, Gulhati

Mr. McNamara said he thought the Bank did not presently have a program for improving the conditions of small farmers. It was necessary to establish firm functional control over the operational work. This should be exercised by CPS and thereby the Rural Development Division under Mr. Christoffersen. CPS should watch over all projects intended to increase the productivity of small farmers.

Mr. McNamara asked that, within a few weeks, a paper be prepared which showed on one sheet all future projects intended for the benefit of small farmers by fiscal year and country, and a list of countries for intensive treatment with projects specified within those countries. Also there should be goals established for what should be accomplished in each one of the intensive-effort countries, and, finally, all other activities connected with the implementation of the Nairobi Speech should be scheduled on the same sheet. This would include those parts of the sector and economic work program which would be relevant to the small farmer program.

Mr. McNamara emphasized the importance of designing a lending program which would be related directly to the productivity increase of small farmers. Mr. Stern pointed out that achieving the goal stated in the Nairobi Speech would require commitment on the part of governments to programs outside those directly connected to Bank lending.

As to the funds needed to conduct the data gathering exercise with FAO, Mr. McNamara asked that a memo be put to him through Mr. Adler.

Additional resources to the Regions would not be necessary in Mr. McNamara's view, since their manpower budgets were calculated with the small farmer program in mind.

The explicit scheduling and monitoring of the small farmer program would require a more stringent definition of small farmers. Mr. McNamara suggested that there be a new discussion when the work program had been documented without regional participation.

AL
May 1, 1974

792 / 2 / 18

MEMORANDUM FOR THE RECORD

Meeting to Discuss Action in the Sahel, April 23, 1974

Present: Messrs. McNamara, Knapp, Baum, Wright

Mr. McNamara said he had met with Minister Pronk of The Netherlands who had been dissatisfied with UN work in the Sahelian Zone. He had hoped that a greater effort could be made both to alleviate the suffering and to prove the effectiveness of aid. He would be willing to pledge \$10 million per year of Dutch development funds for several years.

Mr. McNamara said that Mr. Wright had been pessimistic as to the possibilities of French opposition, technical difficulties, the lack of political infrastructure and the abundance of money already chasing existing projects.

Mr. McNamara asked that Messrs. Knapp, Baum and Wright give some thought to possible ideas on this subject in order for a reply to go to Minister Pronk within a couple of weeks after another meeting.

AL
April 23, 1974

President has seen.

MEMORANDUM FOR THE RECORD

792/2/17

Meeting to Discuss India's Lending Program, April 22, 1974

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Adler

Mr. McNamara put forward the idea of increasing lending program of IBRD to India to the per capita level of Pakistan. This could possibly be connected to a declaration on the part of India that the Bank would not be requested to participate in future debt reschedulings. Mr. McNamara discussed this tentatively earlier with Mr. Kaul. It was agreed that Mr. Chenery and DPS staff would look into this and other issues on the adjusted lending program and there would be a memo to Mr. McNamara by Tuesday evening and a meeting on Thursday, April 25, at 11:00 a.m. to discuss this subject.

AL
April 23, 1974

President has seen

792/2/76

Meeting to Discuss Responsibilities for Dealing with OPEC Countries, April 15, 1974

Present: Messrs. Knapp, Aldewereld, Cargill, Shoaib, Stern

Mr. McNamara said that Mr. Cargill would be responsible for all operational and technical assistance activities in OPEC countries. Other activities relating to OPEC countries were:

1. The EEC proposal;
2. The Iranian proposal for \$150 million to development;
3. Iran's prepayment of Bank loans;
4. A second borrowing operation in Iran in FY74;
5. Borrowing in Saudi Arabia;
6. Borrowing in the Gulf States;
7. A capital increase for the Bank;
8. Borrowing operations and concessional funds from Venezuela;
9. The IMF's special facility and other schemes;
10. The question of a staff member to deal specifically with Arab countries under Mr. Cargill;
11. Operations in Abu Dhabi, Bahrein and Kuwait;
12. Liaison with the energy coordinating group;
13. Mr. Anwar Ali's idea of a deposit facility; and
14. The OPEC Fund.

There was discussion about the interest rate which would seem fair and reasonable on borrowing in Iran and the Arab countries. Mr. McNamara said that he would be willing to borrow in local currency once but would aim to find another denomination, such as SDRs, for further borrowing.

Mr. McNamara said he was inclined to decide fairly soon on a staff member for special liaison with the Arab world. After the UN Special General Assembly, there should be a further analysis of the various schemes to compensate for increased oil prices.

Mr. McNamara asked Mr. Cargill to lay out a plan for all these various points on paper to be discussed soon by the same group. Mr. Alsharekh should be given an aide memoire to take to his countries before he leaves on April 19.

AL
April 16, 1974

President has seen

792/2/15

MEMORANDUM FOR THE RECORD

Review of Nuclear Power Policy Paper, April 11, 1974

Present: Messrs. McNamara, Knapp, Aldewereld, Adler, Alter, Baum, Bell, Chenery, Haq, Nurick, Stern, Weiner, Wapenhans, van der Tak, Thalwitz, Vibert, Howell, E. Friedmann

Mr. McNamara said that, since the paper did not raise major policy questions, it should be distributed to the Board without being scheduled for discussion.

Mr. Knapp questioned whether the Bank should endorse the quality of the product of reactor suppliers. He also said that the United States may protest the Bank entering into the field of nuclear power as it had in the past. Mr. McNamara agreed but said that he would wish to distribute the paper in any case.

Mr. McNamara asked that the summary and text be revised to, among other things, delete the argument that nuclear power projects are suitable for Bank financing because they are capital intensive.

AL
April 12, 1974

President has seen

MEMORANDUM FOR THE RECORD

792/2/14

Review of Agricultural Credit Policy Paper, April 11, 1974

Present: Messrs. McNamara, Knapp, Aldewereld, Adler, Alter, Baum, Bell, Chenery, Damry, Haq, Nurick, Stern, Weiner, Wapenhans, van der Tak, Yudelman, Thalwitz, Vibert, Dosik

Mr. McNamara said that, since the paper raised no major policy issues, it should be sent to the Board without being scheduled for discussion. He suggested that Mr. Knapp, Mr. Damry and he write a note to the Board stating that.

Mr. McNamara said he was skeptical to the paper's statement of the size of administrative costs of credit institutions for small farmers.

Mr. Knapp believed that the Bank should concentrate on long-term financing rather than short-term crop financing. He suggested rewriting the pages on interest rates to say that loans should in principle charge the cost of capital. Mr. McNamara agreed and added that the primary objective should not be avoiding a negative real interest rate but to increase the productivity of small farmers.

As to Mr. McNamara's question regarding the operation implications of the paper, Mr. Yudelman said that the components described in the paper would be incorporated into projects. Mr. McNamara asked him to put together a program for the next few years by country, fiscal year and project to show where agricultural credit would be provided by the Bank.

AL
April 12, 1974

President has seen

MEMORANDUM FOR THE RECORD

792/2/13

Meeting on Compensation, April 8, 1974

Present: Messrs. McNamara, Knapp, Chadenet, Shoaib, Gabriel, Clarke, Sommers

Mr. McNamara asked that the paper to the Board committee include schedules comparing salaries of non-professional Bank staff with comparable categories in the U.S. Government. This will show a considerable advantage of Bank staff over U.S. employees. It was agreed that the extended ranges would be dropped.

Mr. McNamara asked that the use of the Laspeyres index be better explained. The changes regarding widowers' pensions should be included but a footnote added regarding Mr. McNamara's reluctance to put this proposal forward. Changes in life insurance should go to the Board as other proposals.

There would be a meeting at 2:00 p.m. the following Wednesday. The paper would be given to the Fund on Thursday and distributed to the Board on Friday.

AL
April 8, 1974

President has seen

MEMORANDUM FOR THE RECORD

7/2/2/12

Meeting to Discuss Pensions and Salaries, April 1, 1974

Present: Messrs. McNamara, Knapp, Chadenet, Gabriel, Sommers, Clarke

Mr. McNamara said he favored a 10.2% increase on net salaries on the assumption that salaries were at the correct level as at May 1, 1973. The erosion of income would then be 10.2%. Other institutions with whom the Bank competes for staff have offset salaries on a net basis since that time (UN, EEG, OECD). Furthermore, the Bank's should attempt to protect the real value of the staff's income. Finally, there should be a participation of Bank staff in the increase in general productivity in the long run.

Mr. Knapp favored a taper due to the tax effect and, since cost-of-living figures are likely to be different at different income levels.

Others agreed general^{ly} with Mr. Knapp. Mr. Clarke said he would agree with the taper if there is no difference between cost-of-living increases of various income categories.

Mr. McNamara asked that the actions taken by other institutions and governments should be included in the paper. He said that, if a study of cost-of-living shows differences between income categories, he may agree to a taper on the basis that real income should be maintained.

Mr. McNamara asked Messrs. Clarke and Gabriel to design a cost-of-living index for the Bank for future use.

As to pensions, Mr. McNamara said there was agreement to shift from a net to a gross basis. He was against retroactivity since it may cause financial problems to the plan. Pensions are part of a compensation contract. Those who withdrew from the plan earlier will not benefit and, since retroactivity is not the principle applied in most organizations, as a compromise he would agree to retroactivity of one-third. After discussion, it was agreed that the full Bank contribution would be made retroactive and that there would be a statement that, as a matter of principle, no retroactivity would be applied in the future.

Those changes would be accepted which created no cost. However, the change in children's benefits would be adopted, including increase in the range and indexing of range limits.

As to the contribution rate, there was uncertainty as to how much should be provided for cost-of-living increases in the future. It was agreed that the total would be 19% split in the ratio of 2:1 between Bank and staff. It should be stated that the 2:1 formula would be retained even if later cost studies or benefit changes would require a different contribution rate. The paper should say that the cost-of-living issue has not been finally settled and may create a need for adjustments. The staff contribution of 6-1/3% is comparatively less than other plans.

The Fund would come forward with somewhat different proposals. Mr. Witteveen favored a flat percentage increase on net salaries. The Fund's position should be stated in the Bank's paper.

A draft paper would be completed by the end of the week to be submitted to the Fund on the following Monday afternoon. The Fund would be given 24 hours for consideration. The paper would then be submitted to the Bank's committee.

President has seen AL
April 3, 1974

MEMORANDUM FOR THE RECORD

792/2/11

Meeting to Discuss Pensions and Salaries, March 29, 1974

Present: Messrs. McNamara, Knapp, Chadenet, Shoaib, Clarke

Mr. McNamara had called the meeting to prepare for a meeting with Mr. Witteveen later that day.

A paper would be prepared by April 12 for a meeting of the Board Compensation Committee on April 26. Mr. Clarke said that the Staff Association had received the paper on Comparative Data and would comment on the basis of that.

Mr. McNamara said that he felt bound only by equity and procedure. It may in fact be wise not to consult with the Staff Association if this would create serious political problems. The Staff Association reaction, according to Mr. Clarke, was expected to be that the staff should be kept whole in terms of the increases of cost-of-living and that there should be no difference in the percentage of raises given to professional versus nonprofessional staff. Mr. McNamara asked that the proposals not be discussed with the Staff Association in advance of a meeting of the Board Committee.

The proposal regarding salaries would be for an increase of 10.2% of gross salaries. The Fund was proposing to give 10.2% on net salaries and Messrs. Southard and Dale had not been convinced by the arguments forwarded by the Bank's side.

Mr. McNamara asked Mr. Clarke to study whether a 10% gross salary increase would be equal to a 10% net salary increase if tax brackets are moved up proportional to inflation.

Mr. McNamara said that he would agree to switching from net to gross basis and there was discussion of the meaning of maturity-and prefunding.

Mr. McNamara said there would have to be further study of the principles of valuation of a pension fund. Two distinct alternatives would be to assume liquidation immediately or a continuation of activity including contributions.

Mr. Clarke said that he would recommend implementing the proposals regarding sex discrimination, children's benefits and retirement age.

The Staff Association was advocating the use of a "unisex table" for the actuarial assumptions regarding life expectancy. The question is whether this is equivalent to using male and female tables if the unisex table is computed using the correct ratio between sexes on the staff.

Mr. Chadenet pointed out that further questions to be settled would be retroactivity of the switch from net to gross and the withdrawal benefits.

He also mentioned that Mr. Witteveen was hoping to finalize decisions on what to propose to his Board before he leaves on April 2.

AL
April 1, 1974

President has seen

MEMORANDUM FOR THE RECORD

792/2/10

Meeting to Discuss Approach to the Bank's Total Compensation Package, March 18, 1974

Present: Messrs. McNamara, Knapp, Chadenet, Shoaib, Sommers

Mr. McNamara summarized a difficult situation facing the Bank with rapid inflation and the need to revise salaries and pensions by May 1. Individuals inside the Bank and outside had had access to the material so far used and strong views were already present. To compensate fully for inflation and to implement the changes in the pension plan suggested, would require an increase in total compensation of 12% to 13% of payroll. This would be politically extremely difficult to agree upon.

Mr. McNamara asked that a Board paper be written including comparison with the salaries and other benefits of other institutions to be completed by the end of the week. There would then be a meeting the following Monday at 4:30 p.m. to discuss the paper and it would be issued to the Board by the end of the following week or about April 5.

Mr. Sommers said that as to pensions the main issues were net versus gross pensions, retroactivity and funding. Since the comparison with other institutions proposed by Mr. McNamara did not affect the funding problem, Mr. Sommers suggested leaving the funding decisions to later. Mr. McNamara agreed provided that this does not compromise later leeway of decision. It was agreed that the whole cost-of-living issue would be postponed as well as the total question of the adequacy of the size of the fund. Consideration of this would be postponed some one to two years but the proportion of contributions by the Bank and the participants would be stated as being maintained. However, the size of the contribution and the percentage of payroll could be changed later.

Mr. McNamara asked that the paper be kept confidential until it had been reviewed by the meeting group.

In the course of writing the paper, there would have to be an analysis of each one of the proposals for changing the benefits of the plan and it would be assumed that this was done when the draft was prepared.

AL
March 19, 1974

President has seen

MEMORANDUM FOR THE RECORD

792/2/9

Meeting to Discuss Updating of Five-Year Program, March 14, 1974

Present: Messrs. McNamara, Knapp, Baum, Adler, Tims, Bell, Weiner, de la Renaudiere, Wapenhans, Benjenk and Knox

As in the previous meeting, Mr. McNamara described the difficulties in passing an appropriate budget and borrowing program without a five-year program. He therefore proposed the two parallel studies:

1. A further refinement of the paper on the economic adjustment process as a result of increased oil prices. Mr. Baum and Mr. Chenery would be responsible for this.
2. A revised five-year program. Mr. Adler would be responsible for that.

He then outlined the procedure for revising the five-year lending program for each country aggregating these into regional and Bank-wide programs, and reconciling with the over-all financial program of the Bank. He asked that this work in the regions not be permitted to consume much overtime.

In response to questions, Mr. McNamara said that the Bank should be assumed to be able to account for only a maximum of 25% of any country's debt as a rule of thumb, that staff increases should be maximized to 20% in any given unit and year, although the Bank-wide total increase would have to be lower. Program lending would be a possibility but not merely as a way of transferring funds. Financing of past overruns should not be more liberally applied than previously.

It was agreed that the papers would proceed as proposed by Mr. McNamara. Mr. Adler would issue guidelines for the regions to use in their work.

AL
March 14, 1974

President has seen

792/2/8

MEMORANDUM FOR THE RECORD

Meeting to Discuss Updating of Five-Year Program and Comprehensive Energy Paper,
March 13, 1974

Present: Messrs. McNamara, Knapp, Chenery, Adler, Baum, Tims, Schulmann

Mr. McNamara outlined his approach and said there were two major problems: to get a budget approved for FY75 and a borrowing program, both appropriate to the needs of the Bank and developing countries. This could probably not be obtained without revising the Five-Year Program in time for the budget discussion. He therefore proposed a complete revision including financial projections and consideration of the lending rates. He proposed that Mr. Adler be responsible for revision of the Five-Year Program and Messrs. Baum and Chenery for the paper on the process of adjustment to higher energy prices. The two should proceed simultaneously with a maximum of coordination. Programs of work should be drawn up for both.

For the Five-Year Program, the economic outlook should be revised. Country programs should be updated by deleting and adding projects, considering IDA money as constant in accordance with the Fourth IDA Replenishment and Bank money as unlimited. Limitations should be placed only by the need, absorptive capacity and creditworthiness of countries. Major work would be necessary chiefly in the Asian Region. The CPP exercise should be completed and aggregated for the Bank by April 15. This aggregate would then be compared to constraints of budget and borrowing and general reasonableness and be adjusted to be included in a complete draft of the paper by May 15, to be finalized in early June for a budget discussion July 15.

Mr. McNamara asked that the budget guidelines be maintained and worked on in their present form and that the resulting budget would then be adjusted for a revised program emerging from the CPP exercise. He emphasized that he would like to further increase the efficiency of the Bank by accepting only a smaller discount factor between the number of projects presented in the regional programs versus those actually achieved. Since oil countries would be receiving substantial amounts of technical assistance from the Bank and possibly charged for it, this item should be identified separately in the budget. There would be a meeting the following day at 11:00 to discuss this proposal with the Regional Vice Presidents and another meeting on Wednesday, March 20, at 11:30 a.m. to discuss work programs for the revision of the Five-Year Program and draft guidelines from P&B.

AL
March 14, 1974

President has seen

792/2/7

MEMORANDUM FOR THE RECORD

Mr. Benjenk's Report on Trip to Middle East, March 6, 1974

Mr. Benjenk had been told by Mr. Zaki Saad that Saudi Arabia favors the Shah's proposal despite its origin. He would present the proposal to The King and personally favored it over the special fund facility, since that would only provide one out of \$12 billion to developing countries. Mr. Benjenk had given the first page of Mr. McNamara's memo to Mr. Saad. Mr. McNamara said he would be willing to go to Saudi Arabia when appropriate.

Mr. Benjenk had met Mr. Marei in Ryadh. Mr. Marei was a former Minister of Agriculture of Egypt and currently Chairman of the Preparatory Committee for the Food Conference. He had visited Washington with the intention of discussing with Mr. McNamara the Food Conference and investment of surplus Arab funds, but Mr. McNamara had been away and Mr. Marei had been poorly received. Mr. Benjenk had tried to console his hurt feelings and had listened to Mr. Marei's proposal for a fund to finance agriculture in LDCs. Mr. Marei said he would speak to President Sadat, King Faisal and the Shah on the subject. Mr. Benjenk had discouraged him from earmarking funds particularly for agriculture even if that was an important sector. Mr. McNamara asked Mr. Benjenk to examine the letter Mr. McNamara had written to Mr. Marei and see if any further communication would be advisable.

Mr. Benjenk reported from meetings with OPEC in Vienna, that OPEC and Bank staff were coordinating work on the balance of payments impacts of oil prices and alternative energy sources. There seemed to be no reduction in oil prices in sight. OPEC was planning a meeting for mid- to end-March. The Secretary General of OPEC had said that "an OPEC bank is not a substitute for the Iran Development Fund." It seemed likely that the Iran proposal and that of Venezuela would be on the table at the forthcoming OPEC meeting. Mr. Benjenk had asked him to obtain a mandate to discuss cooperation with the Bank if he believed that the Bank's participation would be useful. Mr. McNamara asked that the OPEC Secretary General receive a copy of the Bank's recent oil paper.

Mr. McNamara asked Mr. Benjenk to discuss with Mr. Khelif possible background of a recent statement by Algerian Finance Minister Mr. Mahroug to the effect that oil funds should not be invested in the World Bank.

It was agreed that Mr. McNamara would call Minister Ateeqi to report on his visit to Egypt and to sound him out on his attitude to the Shah's proposal.

AL
March 13, 1974

President has seen

79212/6

MEMORANDUM FOR THE RECORD

Meeting with Mr. Ullberg, Minister Counsellor, Norwegian Embassy,
March 1, 1974

I met with Mr. Ullberg at his request. He was interested in the Shah's proposal for financing balance of payments deficits and development assistance. I told him of the Iranian commitment to \$1 billion for the first year of a scheme to finance the Fund's special facility, purchase of Bank bonds and a new development fund. I said that the Bank and the Fund, in cooperation with Iran, would pursue the idea with other prospective donors, initially Arab countries but also industrialized countries.

I asked him how far Norway had advanced in its thinking as to how to handle increased oil revenues and, specifically, how this would affect its aid program. He said that the long-term calculations of economic programs resulting from increased oil revenues were still embryonic and that oil revenues had not really yet started to flow. As to the aid program, the substantial increases planned before were going to be implemented but no changes had been made and the aid program had not been discussed in relation to increased oil revenues.

Mr. Ullberg was on his way to meetings in State Department where he would solicit the U.S. views on the Shah's proposals. He called later to say that the reaction at State had been not surprisingly that bond purchases by Iran and others was an excellent idea as was the recycling of oil liquidity through commercial lending. However, a new development fund could seriously compete with IDA, according to State.

AL
March 1, 1974

President has seen

792/2/5

MEMORANDUM FOR THE RECORD

Meeting to Discuss 1974 Annual Meeting Speech, January 31, 1974

Present: Messrs. McNamara, Chenery, Stern, Clark, Maddux

Mr. McNamara asked for comments as to the adequacy of the outline proposed by Messrs. Chenery and Stern. He commented that research on non-oil commodity prices was needed and more generally on the prospects for terms of trade for the LDCs. It was agreed that further work would be initiated on this topic, possibly with the help of consultants such as Mr. Frank. Mr. Chenery said that we would need to project the internal changes in the economies of the LDCs due to changing energy prices. He suggested, and it was agreed that Miss Elinor Yudin would write the technical draft which would be started on May 1 and finished May 31. Thereafter Mr. Maddux would take over the writing and the speech would be circulated to a number of people for comment. Mr. McNamara accepted Mr. Chenery's suggestion that a group of outside advisors be enlisted for monthly meetings to advise on the contents of the speech. One of these should possibly be a financial expert due to the importance of these problems in the near future.

AL
February 1, 1974

President has seen

702/2/4
January 29, 1974

From: Denis Rickett

Subject: IDA Fourth Replenishment - A Discussion with Part II Countries

Mr. McNamara gave a working luncheon for Part II Directors on Tuesday, January 29th.

The principal points in discussion were as follows:-

(i) Mr. McNamara described the factors which had contributed to the adverse vote in the House of Representatives. There had been a failure of the President's Party to make proper preparations. The bill had been the first to be voted on since the Christmas recess. Congressmen, all of whom have to be re-elected this year, had been impressed by the opposition to foreign assistance in their constituencies stimulated by the energy crisis and continuing inflation. The debate itself had not been well handled. Many of the points raised by critics of the bill had not been answered. Mr. Mahon's opposition had been particularly damaging.

(ii) He had held a meeting with Part I Directors. A number of them had felt that their Governments would need to know what action the US Government proposed to take. But there had been strong support for the view that no attempt should be made to renegotiate the Agreement. Governments should be urged to make advance contributions at the level agreed in Nairobi if these were needed to keep IDA in business after July 1st next.

(iii) The US Government intended to issue a strong statement reaffirming their intention to get the legislation passed. This statement would be made within the next ten days. Thereafter, the Administration would try to get the bill passed by the Senate.

(iv) The Directors of the Part II countries could help by using their contacts in Congress and asking their Ambassadors to do the same so as to impress on members of both houses the vital importance of IDA to the developing countries. Later in the discussion some of the Part II Directors said that it would help them if they could be provided with a briefing paper setting out the main points which should be made to Congressmen.

(v) Mr. Ugueto raised the question of oil revenues. Something should be done to use a part of these to help the developing countries. Various methods could be followed, e.g. advice and assistance in managing oil revenues, provision of an asset such as Bank bonds in which a part could be invested, joint financing of development projects, etc. Countries, such as Venezuela, were worried by the problem of how to use the immense funds accruing to them. For political reasons they would be willing to give some protection to the poorest countries from the effects of the rise in oil prices. They would not be willing to make much money available on IDA terms. But terms, intermediate between IDA and market rates, might be possible. How much money could be used in this way?

January 29, 1974

Mr. McNamara said that \$3-5 billion could be used. The Bank would be ready to explore the terms and conditions which would suit the oil producers. The Bank would give any staff assistance needed and Sir Denis Rickett would act as a point of contact for any such requests. Mr. Ugueto thought that the Venezuelan Government might be able to make some proposal to the meeting of oil-producing and exporting countries to be held in March.

(vi) Mr. Clarke referred to the very serious difficulties of Jamaica where the increased oil bill for one year exceeded their entire foreign exchange reserves. Some emergency scheme for financing oil purchases on concessionary terms was urgently needed. Mr. McNamara had said that the Bank would work with the Fund in an endeavour to find some solution. He had discussed the problem with Mr. Coore in the last few days.

At the conclusion of the discussion, Mr. Kochman arranged to have a further meeting with his colleagues on Wednesday, January 30th, at 10 a.m.

Original plus 1 copy: Mr. McNamara
cc: Mr. Knapp
Mr. Nurick
Mr. Adler

DHFRickett:emcc

MEMORANDUM FOR THE RECORD

79212/3
January 28, 1974

From: Denis Rickett

Subject: Discussions with Part I Countries: United States

Mr. McNamara called on Mr. Shultz at the US Treasury on Friday, January 25th, 1974, at 5:30 p.m. Mr. Shultz had with him Mr. Hennessy and Mr. Reynolds. I accompanied Mr. McNamara.

Mr. Shultz said that the defeat of the IDA legislation in the House had come as a surprise and a shock to him. It was true that, as he had told Mr. McNamara at Nairobi, the attitude in Congress at that time had been unfavorable. Nevertheless, the efforts made at Nairobi to gain support from the visiting Congressmen had had some success and the bill had been reported out subsequently by the Banking and Currency Committee without opposition. Action in both Houses of the Congress on the foreign aid appropriations for fiscal year 74 had been more favorable in respect of the development finance institutions than had been expected. He had discussed the Fourth Replenishment of IDA with Mr. Mahon before the Nairobi meeting and had seen him only a few days ago at a meeting in the Cabinet room. He had expected Mr. Mahon to support the bill. Undoubtedly his speech had had a considerable effect in bringing about the adverse vote. Mr. Shultz had got in touch with Mr. Mahon after the debate and had told him that he had been wrong in stating that the level of the US contribution to the Third Replenishment was \$320 million a year. One must add to this the payments for maintenance of value made after the two devaluations of the dollar averaging \$64 million a year. Mr. Mahon had, in consequence, revised and extended his remarks in the Congressional Record and appeared to be ready to support a US contribution of \$384 million a year for three years though he had criticized the idea that the US contribution could be raised to \$1500 million in total if payments were spread over four years. Mr. Shultz said that one course would be to re-introduce the bill into the House later with a reduced US contribution. Before doing this, however, it might be best to try to get the bill passed in its present form by the Senate. Mr. Hennessy suggested that if the Senate passed the bill by the end of March, it could be re-introduced into the House with a lower US contribution in May or June. The Agreement would then have to be re-negotiated with the other donors.

Mr. McNamara said that he was extremely doubtful whether this could be done successfully at the present time. He had held a meeting of the Executive Directors of the Part I countries that afternoon. Mr. Reynolds would confirm that a number of them had expressed serious doubts whether, if the Agreement were now to be re-opened for further discussion, agreement could be reached. The reduction in the US share to 33-1/3% would be questioned on the ground that the US was likely to suffer least of the Part I countries from the effects of the higher prices for oil and that, indeed, the dollar would be strengthened. On the other hand, if the Administration made a strong statement reaffirming its support for the Agreement as negotiated and if, in addition, the Senate could be persuaded to pass the bill (which he realized would not be easy), there was a good chance that a majority of the other donors would proceed with their legislation and would agree to make advance contributions at the level fixed in Nairobi. There would then be a better prospect that they would not seek to

January 28, 1974

reduce the level of their contributions whatever the final outcome in Congress.

Mr. Shultz appeared to accept this reasoning and said the first step was clearly to prepare a strong Administration statement which should be issued before the meeting on the oil situation to be held in Washington on February 11th. Secretary Kissinger should be asked to make representations to the Foreign Relations Committee of the Senate urging that the bill should be passed.

Mr. Hennessy objected that such a statement could not be issued without further consultation with Congress. Whatever action the Senate took it would be useless to try to get the House to try to pass the bill in its present form. Mr. Shultz instructed him to have the statement drafted and said that subsequent action could be given further consideration later.

Mr. McNamara offered to do all he could to secure support in the Senate. There were a number of Senators whose votes he might be able to secure.

A discussion followed on the situation in regard to oil prices. Mr. Shultz appeared to think that if a sufficiently firm attitude were adopted by the oil-consuming countries, some reduction in the present prices could be secured. Mr. McNamara thought that it would be difficult to overcome the bargaining power of the producers provided that they remained united and that indeed the price might go even higher. He then referred to the proposed Bank loan to Iran which had been scheduled for discussion by the Board on the following Tuesday. He fully understood the objections to lending on concessionary terms to Iran when, in 1974 alone, their oil revenues were likely to rise to \$14 billion, an amount far in excess of anything they could spend. The Iranian Government, on the other hand, attached great importance not merely to the money involved but also to the technical assistance which the Bank could provide in drawing up their development program. The Shah would feel personally affronted if the loan were withdrawn at this late stage and relations between Iran and the Bank would be irretrievably damaged. Mr. McNamara had some hope that in time funds could be channelled back from Iran to the Bank in amounts far exceeding the present loan. Mr. Benjenk would be visiting Tehran to discuss this. The Iranians might be prepared to buy back quite soon a substantial part of the proposed loan. This would follow the precedent set in the case of Thailand where the Bank had made loans even though Thailand was receiving large amounts of dollars from the expenditure of US forces. Any member country had the right to ask for an item on the Bank Board's agenda to be postponed for not less than 48 hours. The loan would therefore be taken off the agenda for next Tuesday. He could not, however, promise any substantial delay in considering it if it became clear that this would cause serious damage to the Bank's relations with Iran. This would be of no advantage to anybody.

Mr. Shultz acknowledged that there was force in these arguments but said that there was, nonetheless, a serious political problem in getting them accepted by Congress.

Original plus 1 copy: Mr. McNamara

cc: Mr. Knapp
Mr. Broches
Mr. Nurick
Mr. Adler

DHFRickett:emcc

792/2/2

MEMORANDUM FOR THE RECORD

Meeting on IDA, January 24, 1974

Present: Messrs. McNamara, Knapp, Broches, Cargill, Rickett, Adler, Nurick, Stern Merriam

In view of the previous day's defeat in the House of the IDA Bill, Mr. McNamara made the following proposals for action.

1. Sir Denis would be in charge of all efforts to continue IDA at an acceptable level.
2. Mr. Adler would direct the staff work and would obtain additional persons for this purpose if necessary.
3. Outside consultants may be used.
4. The group convened should serve as an advisory group.
5. Executive Directors should be consulted, particularly Mr. Isbister.

As to the approaches to resurrecting IDA, Mr. McNamara saw the following alternatives:

1. Revive the Fourth Replenishment formula as negotiated, calling upon the United States to remedy some of the damage done. He mentioned the fact that the Consultative Group on Vietnam would have to be cancelled if there were no 4IDA.
2. An alternative formula could be negotiated presumably at a lower total figure.
3. Supplementary funds could be sought. The only conditions, when considering this, should be that prudent financial management should continue and there should be no need for legislation of the proposals. He mentioned specifically the possibility of hardening the terms of IDA if necessary. As to sources of funds, it could be possible to borrow from the Bank with IDA capital as collateral or to borrow from governments including Arab nations. Interest subsidies could be obtained from IDA profits among other sources.
4. Emergency bridging would have to be considered to keep IDA in operation after July 1, 1974. This may be done as before by approving projects subject to availability of funds, or through advance contributions from member nations.

Another meeting would be held on Tuesday, January 29, at 4:00 p.m.

There was discussion of the reasons for the large majority opposing IDA and about the intentions of the U.S. administration to pursue the matter further. Mr. Merriam said that the mood in the House is poor after the recess and that an approval by the Senate may be the next step towards eventual approval of 4IDA.

It was suggested that there be a meeting with Part I Country Directors before considering the FY74-FY78 program. Also the possibility of convening a meeting of Part I country Finance Ministers.

President has seen

As to the possibility of advance contributions, Sir Denis said that the U.K. and other governments may not be willing to contribute when the chances of U.S. approval are not known.

Mr. Stern suggested that the meeting on energy convened by the United States on February 11 include on its agenda discussion of assistance to developing countries, and specifically the IDA problem.

Arab money could probably be obtained at commercial rates but the chances of obtaining concessionary funds in the short run were very small. Mr. McNamara said the various forms of bonds and sources of funds should be carefully analyzed. If changes were needed in policies, contracts or Articles, it would be necessary to examine the legislative action necessary to obtain these freedoms. Mr. McNamara mentioned as an example the authority for the Bank to lend to IDA and the possibility of making advance borrowing arrangements with countries or with the Bank to IDA. Sir Denis suggested making advance commitments of Bank profits to IDA subject to their availability. Mr. Nurick suggested liberation of reserves and it was agreed that these two schemes could be combined.

Mr. McNamara asked Sir Denis to recommend when and under what forms he should see Secretary Shultz.

Mr. McNamara asked that possibilities to borrow from the Fund be investigated, as to the constraints on the Fund and on the Bank and, in particular, whether the Bank can be a recipient of SDRs.

AL

January 24, 1974

792/2/1

MEMORANDUM FOR THE RECORD

Meeting on Energy, January 22, 1974

Present: Messrs. McNamara, Knapp, Rickett, Shoaib, Stern

Sir Denis gave an account of the C20 and G24 meetings in Rome. There had been proposals to channel the liquidity arising from oil revenues through the Fund for lending to countries with current account deficits. The communique had proposed that the Bank and Fund cooperate to propose a scheme.

U.S. Secretary of Treasury Shultz had expressed unwillingness to acquiesce on the high oil prices. Germany was expected to agree with this view on the meeting in Washington on February 11. The oil producers (Mr. Anwar Ali of Saudi Arabia) had said that what was needed was an international central bank for deposit of "savings" resulting from oil. Interest rates would have to be competitive.

In the Group of 24 oil producers defended their actions forcefully and consumer nations had been reluctant to offend them. Consequently the communique had very bland language regarding price increases.

Mr. McNamara said that he still had not heard anyone suggest how the problems of large non-oil-producing developing countries would be solved in 1974 when they would run a heavy current account deficit. Even the results of bilateral negotiations would not be substantial to alleviate this problem. He summarized to Sir Denis his recent actions of sending Mr. Benjenk to sound out oil-producing governments and asked Mr. Shoaib to be in touch with Messrs. Anwar Ali and Zaki Saad to elicit the views of the same governments; to prepare a Board paper regarding the impact of oil prices on LDCs for discussion at a date in the near future; and to contact the Fund to understand more fully their thinking. He asked Sir Denis' support along with Mr. Stern to meet with the Fund.

Sir Denis said that the climate regarding aid had deteriorated and Mr. Volcker had even speculated that problems to get 4IDA passed in Congress. Economists were that recession may result if oil savings are not spent. OECD was suggesting that the necessary demand could be stimulated through aid to LDCs which in turn would result in demand for products of developed countries. Mr. McNamara asked Sir Denis to distribute the paper by OECD.

Mr. McNamara asked Mr. Stern to provide a scenario of what would occur in 1974 when developing nations find themselves short of foreign exchange to pay for oil purchases. Secondly, he was to examine the merits of borrowing in the currencies of oil-producing nations.

AL
January 23, 1974

President has seen