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THE WORLD BANK
Washington, D.C.

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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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Friedman Presidential Chron files / Bullitt's Memorandum

Oct. 12, 1964

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Irving S. Friedman Chron files - Bullitt's memorandum

October 12, 1964

Mr. Woods:

I am not sure you would wish me to write this memo summarizing the principal points in John's memorandum and some comments thereon. However, one has to begin somewhere! I would be glad to discuss this with you at your convenience.

Mr. Woods

October 12, 1964

Irving S. Friedman

Mr. Bullitt's Memorandum

I find much in Mr. Bullitt's memorandum with which I agree, including a number of ideas which had occurred to me separately on the basis of my own experience. Moreover, his memorandum also brings to the fore certain major questions for decision by the Bank which are also being raised by our work.

The main theme is that there will be an accelerated economic development assistance effort by the U.S. and this will require an accelerated effort by other industrialized countries. Such effort will accentuate existing problems including burden sharing, coordination of terms and conditions, and participation of the developing countries in the decision making process. Mr. Bullitt advocates that as much as feasible of the world aid burden, both capital and technical assistance, should be shouldered by the IBRD/IDA/IFC. He gives a number of reasons for advocating this, of which I found particularly interesting the thought that through the pooling of funds in IDA the comparability of loan terms and coordination of operations among the creditor countries are achieved and that the opportunities exist for more effectively guiding countries on sensible development problems. The memorandum speaks as though these things already exist, but even if they don't exist, at least the opportunity is given for them to exist.

The memorandum envisages a substantial increase in new loan commitments by the IBRD to developing countries. It sees net Bank lending to LDC's rising from an estimated \$700 million in fiscal year 1965 to a level of commitments approaching \$1.5 billion in 1970, with a minimum of \$1 billion net Bank lending to LDC's. It recognizes that a constraint on lending is the debt repayment capacity for loans on Bank terms. Part of the problem is seen as being taken care of by fresh long-term Bank lending and debt rescheduling where appropriate. It concludes that a substantially increased flow of aid on IDA terms may form the basis for the Bank's willingness to increase the level of its loan commitments to a developing country. It sees another constraint on greatly increased bank operations in the availability of new capital. It therefore advocates that the Bank should involve itself to a much greater extent than heretofore in OECD and BIS activities aimed at strengthening European capital markets. He assumes that until the U.S. balance of payments reaches equilibrium there will be strong pressures to restrain Bank borrowing from U.S. sources. However, he feels the U.S. should continue to be the residual supplier of funds for whatever level of Bank operations is otherwise practicable.

The memorandum advocates that thinking begin about the next IDA replenishment. In this connection it quotes your address to the Governors, as well as Chancellor Maudling and Secretary Dillon. The quote from Secretary Dillon's concludes with the expression of hope that the results of the Bank's studies will provide useful guidance as to the sources and magnitude of the funds which could be administered by the Bank family on IDA terms. The memorandum expresses the view

that a major effort will be required by the Bank to come up with a defensible proposal for replenishment and to create a consensus of the major Part I contributions supporting its proposal. The memorandum envisages a resolution being acted on at the 1965 Annual Meeting by the IDA Governors as a basis for proposals to legislatures in 1966.

Two major problems of replenishment are discussed--the amount and the sharing. The memorandum says that the need for funds on IDA repayment terms is much larger than any practicable negotiating figure. Reference is made to the UNCTAD Conference and more particularly to the UK-Swedish compensatory finance proposal and the Horowitz proposal. It sees the objectives of both proposals being served by a significant increase in IDA funds. It comments that without prejudicing views on the outcome of the Bank studies, the objectives should be to utilize these proposals to support a very large IDA general replenishment--perhaps on the order of \$1 billion a year if IBRD transfers are included. It emphasizes that the IDA share problem will be very difficult, particularly vis-à-vis the U.S. Congress. However, it concludes that before pressing the share question the Bank should create a consensus among the Part I countries for a substantial increase in IDA resources. In order to increase IDA resources it refers to the possibility of transferring a larger percentage--80 per cent--of annual net earnings of the Bank to IDA with the added suggestion that the earnings might be used to implement some kind of modified Horowitz proposal. Another thought is investment by the IMF of currencies deposited with it by surplus countries. However, the memorandum concludes with advising that because of shortness of time that attention be concentrated on budgetary contributions.

The memorandum supports increased flexibility of IBRD/IDA lending purposes including local currency financing which would in effect provide general balance of payments support. The memorandum envisages that the Bank family will modify its operations so that in future years it will not only concentrate on validation of projects and programs but will increase the importance it attaches to the consideration of the needs of an LDC economy as a whole as it engages in the development process.

The memorandum then goes on to suggest how the IBRD might extend its general economic and project preparation analysis. It calls for searching appraisals of the development needs and efforts of the developing countries and their requirements for foreign assistance on a regular and systematic basis and notes that this will require the substantial enlargement and improvement of this aspect of the Bank's operations. In this connection it advocates Bank-Fund cooperation and even joint Bank-Fund reports on countries. The memorandum comments that in the absence of such action the UNCTAD Conference indicated that there will be increased pressure for this kind of task to be undertaken in other UN bodies. The memorandum also strongly advocates that the Bank play an important role in dealing with the problems of external indebtedness. It also advocates that the Bank should extend further its efforts at coordinating bilateral assistance programs to the LDC's such as the India and Pakistan consortia and the various consultative groups now in being. It believes that there is much room for improvement in achieving better coordination of aid efforts and the terms on which assistance is given. It feels that this will require closer ties with various other international institutions such as the DAC and other development regional bodies.

It expresses the view that investment surveys of the UN Special Fund can point to new areas of investment by the Bank family, regional banks or individual donor countries. The memorandum also advocates the formation of a joint international institute of the IBRD and the IMF, including independent academic research.

To achieve broad support for this kind of enlarged program it advocates the formation of an international committee from different groups to "consider the adequacy of IDA's resources". This group, it is said, could generate support for the 1966 replenishment of IDA and subsequently a program group with perhaps national chapters could be created. (In this context reference is made to the Bank's Articles' provisions for an IBRD Advisory Council.) The memorandum concludes with comments on the operations of the Inter-American Development Bank and the African Development Bank ending with the view that a very large part of any expansion in aid through multilateral institutions should be provided through the fully multilateral bodies, namely the IBRD family.

Comments

1. As noted above some of the views expressed in this memorandum are very similar to ones which I have held myself. I too believe that of basic importance is the adoption of a procedure and technique for periodic and close examination of a country's entire economy with a view to having a Bank judgment on the appropriateness of its economic and financial policies from the viewpoint of development. I believe that implied in this is a willingness of the Bank to have its own judgment on such policies and to make suggestions or recommendations to countries in the course of exchange of views between the countries and the Bank. It means the Bank becoming a major influence on the general economic behavior of the country and a willingness to assume responsibility for indicating what it believes to be right or wrong policy.
2. I endorse the concept of Bank-Fund cooperation on these matters including the possibility of joint reports on countries but full cooperation is predicated, among other things, on the willingness of the Bank to undertake the same kind of periodic exchange of views with all members and to devote the necessary staff to such activities.
3. I also believe that if the Bank family is to play a bigger role there will have to be a re-examination of the purposes ~~to~~ which Bank-IDA lending are given, particularly IDA. Moreover, the question will arise whether the project approach lends itself procedurally to such expanded activities or whether some other non-project approach will have to be found. Closely related is the willingness of the Bank-IDA to state to its members what its criteria are on the use of IDA funds beyond the concept of which countries are eligible.
4. I feel that the proper emphasis is given to the indebtedness question and that the memorandum is correct in seeing that all of these problems including the IDA replenishment are all really one basic problem which we are calling development finance, involving both the developed countries and the less developed countries.

5. I would also agree on the need for closer working relations with other interested international agencies but would comment that if this is done it will involve the use of staff which are familiar with the problems technically. What Mr. Bullitt is referring to is presumably a functional or working relation rather than representational.

6. There are a few things, however, on which I believe I might differ somewhat:

(a) The memorandum speaks of the need for periodic consultations with the LDC's. I believe that it will be found equally necessary to have close contacts and even periodic discussions with the developed countries as well. (I have worked up a tentative agenda for discussions with LDC's and developed countries.)

(b) Closely related to (a) is the need for criteria agreed by the IBRD/IDA (presumably after reaching agreement with the principal Part I countries) by which to formulate proposals for sharing the burden if the international politics are to be minimized and the hat-in-hand aspect to be eliminated.

(c) I am in no position at this time to question the target figures for IBRD and IDA lending. However, I do believe that they would involve at least a change both in the purposes and procedures of the IBRD/IDA and probably in the methods of raising the funds needed.

(d) I have grave doubts about the feasibility of Fund investments in IDA although I know that certain technicians in the Fund and in the U.S. Government seem to favor it.

(e) I have doubts about the wisdom of an international committee to consider the adequacy of IDA's resources. However, I hasten to admit that this reflects a basic bias in my attitude in favor of such judgments being made by the Bank rather than by any outside group. Do Wise Men recommendations get any better hearing in national legislatures than those made by the World Bank or Fund? This, however, is not to say that national groups of a kind discussed the other day might not serve a useful purpose. I see such groups as endorsing proposals coming from the Bank rather than making proposals for the Bank's consideration.

7. The memorandum is written on the assumption that the Bank will develop a "defensible proposal" for IDA replenishment and will create a consensus of the major Part I contributors to support this proposal (pages 5 and 7). This is obviously a major assumption. We are doing the necessary work to come up with such a proposal but presumably you will wish to give more thought to the question as to how far the Bank should go. It might be useful to have a further discussion with Mr. Bullitt as to what he had in mind in assuming that the Bank would fulfill this role.

18/12/64

Memorandum to Mr. Woods : Draft

Subject: Mr. Bullitt's Memorandum

I find much in Mr. Bullitt's memorandum with which I agree, including a number of ideas which had occurred to me separately on the basis of my own experience. Moreover, his memorandum also brings to the fore certain major questions for decision by the Bank which are also being raised by our work.

The main theme is that there will be an accelerated economic development assistance effort by the U.S. and this will require an accelerated effort by other industrialized countries. Such effort will accentuate existing problems including burden sharing, coordination of terms and conditions, and participation of the developing countries in the decision making process. Mr. Bullitt advocates that as much as feasible of the world aid burden, both capital and technical assistance, should be shouldered by the IBRD/IDA/IFC. He gives a number of reasons for advocating this, of which I found particularly interesting the thought that through the pooling of funds in IDA the comparability of loan terms and coordination of operations among the creditor countries ~~which~~ are achieved and that the opportunities exist for more effectively guiding countries on sensible development problems. The memorandum speaks as though these things already exist, ~~but I don't think that Mr. Bullitt would disagree with the notion that either they exist, or at least the opportunity is given for them to exist.~~ ^{even if} ~~or~~ ^{hard} The memorandum envisages a substantial increase in new loan commitments by the IBRD to developing countries. It sees net Bank lending to LDC's rising from an estimated \$700 million in fiscal year 1965 to a level of commitments approaching \$1.5 billion in 1970, with a minimum of \$1 billion net Bank lending to LDC's. It recognizes that a constraint on lending is the debt repayment capacity for loans on Bank terms. Part of the problem is seen as being

taken care of by fresh ^{long} ~~loan~~ terms, Bank lending and debt rescheduling ^{where} ~~where~~ ^{appropriate.}

It concludes that a substantially increased flow of aid on IDA terms may form the basis for the Bank's willingness to increase the level of its loan commitments to a developing country. It sees another constraint on greatly increased bank operations on the availability of new capital. It therefore advocates that the Bank should involve itself to a much greater extent than heretofore in OECD and BIS activities aimed at strengthening European capital markets. He assumes that until the U.S. balance of payments reaches equilibrium there will be strong pressures to restrain Bank borrowing from U.S. sources. However, he feels the U.S. should continue to be the residual supplier of funds for whatever level of Bank operations is otherwise practicable.

The memorandum advocates that thinking begin about the next IDA replenishment ~~and I~~ ^{it} in this connection quotes your address to the Governors, as well as Chancellor Maudling and Secretary Dillon. The quote from Secretary Dillon's ^{concludes} ~~comments~~ with the expression of hope that the results of the Bank's studies will provide useful guidance as to the sources and magnitude of the funds which could be administered by the Bank family on IDA terms. The memorandum expresses the view ^{to come up} that a major effort will be required by the Bank ^{for replenishment} with a defensible proposal and to create a consensus of the major Part I contributions supporting its proposal. The memorandum envisages a resolution being acted on ^{at} by the 1965 Annual Meeting by the IDA Governors as a basis for proposals to legislators ^{was} in 1966. ⁹ Two major problems ^{of replenishment} are discussed--the amount and the share ^{problems}. The memorandum says that the need for funds on IDA repayment terms is much larger than any practicable negotiating figure. Reference is made to the UNCTAD Conference and more particularly to the UK-Swedish compensatory finance proposal and the Horowitz proposal. It sees the objectives of both proposals being served by a significant increase in IDA funds. It comments that without prejudice ^{ing} views on the outcome of the Bank studies,

the objectives should be to utilise these proposals to support a very large IDA general replenishment--perhaps on the order of \$1 billion a year if IBRD transfers are included. It emphasises that the IDA share problem will be very difficult, particularly viz-a-viz the U.S. Congress. However, it concludes that before pressing the share question the Bank should create a concensus among the Part I countries for a substantial increase in IDA resources. In order to increase IDA resources it refers to the possibility of transferring a larger percentage--80 per cent ^{of} annual net earnings of the Bank to IDA with the added suggestion that the earnings might be used to implement some kind of modified Horowitz proposal. Another thought is investment by the IMF of currencies deposited with it by surplus countries. However, the memorandum concludes with advising that because of ~~the~~ shortness of time that attention be concentrated on budgetary contributions.

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The memorandum then goes on to suggest how the IBRD might extend its general economic and project ^{preparation} economic analysis. It calls for searching appraisals of the development needs and efforts of the developing countries and their requirements for foreign assistance on a regular and systematic basis and notes that this will require the substantial enlargement and improvement of this aspect of the Bank's ^{operations} aspirations. In this connection it advocates Bank-Fund cooperation

and even joint Bank-Fund reports. ^{on memoranda} The memorandum comments that in the absence of such action the UNCTAD Conference indicated that there will be increased pressure for this kind of task to be undertaken in other UN bodies. The memorandum also strongly advocates that the Bank play an important role in dealing with the problems of external indebtedness. It also advocates that the Bank should extend further its efforts at coordinating bilateral assistance programs to the LDC's such as the India ^{and} Pakistan consortium ^a and the various consultative groups now in being. It believes that there is much room for improvement in achieving better coordination of aid efforts and the terms on which assistance is given. It feels that this will ^{require} mean closer ties with various other ^{international} institutions such as the DAC and other development regional bodies.

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Comments

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2. I endorse the concept of a Bank-Fund cooperation on these matters including the possibility of joint reports ^{on countries}, but full cooperation is predicated ^{among other things} on the willingness of the Bank to undertake the same kind of periodic exchange of views with ^{all members} countries and to devote the necessary staff to such activities.

X 3. I also believe that if the Bank family is to play a bigger role there will have to be a re-examination of the purposes ^{for} to which Bank-IDA ^{loans} lending are given, particularly IDA. Moreover, the question will arise whether the project approach lends itself ^{procedurally} to such expanded activities or whether some other non-project approach will have to be found. Closely related is the willingness of the Bank-IDA to state ^{to its members} what its criteria are ^{on} in the use of IDA funds beyond the concept of which countries are eligible.

4. I feel that the proper emphasis is given to the indebtedness question and that the memorandum is correct in seeing that all of these problems including the IDA replenishment are all really one basic problem ^{which we are calling development finance} involving both the developed countries and the less developed countries.

Consensus
concern

5. I would also agree on the need for closer working relations with other interested ^{international agencies} ~~bodies~~ but would comment that if this is done it will involve the use of staff which are familiar with the problems technically. What Mr. Bullitt is referring to is presumably a functional or working relation rather than representational.

6. There are a few things, however, ^{on which} ~~where~~ I believe I might differ somewhat:

(a) the memorandum speaks of the need for periodic consultations with the LDC's. I believe that it will be found equally necessary to have close contacts and even periodic discussions with the developed countries as well. *(I have worked up a tentative agenda for discussion with LDCs and developed countries.)*

(b) closely related to (a) is the need for ~~agreed~~ ^{agreed by the} criteria, by which to ~~judge the problem of~~ ^{formulate proposals for the} sharing the burden if the international politics are to be minimised and the hat-in-hand aspect to be eliminated.

IPRD/IDA

(c) I don't think I would support the idea of a joint Fund-Bank institute to do academic research, but see merit in the idea of a joint institute offering training facilities. I appreciate that this is a minor aspect of his suggestion.

(d) I am in no position at this time to question the target figures

② I have grave doubts about the feasibility of Fund investments in IDA although I know that certain technicians in the Fund and in the U.S. Government seem to favor it.

this proposal (pages 5 and 7). This is obviously a major assumption. We are doing the necessary work to come up with such a proposal but presumably you will wish to give more thought to the question as to how far the Bank should go. It might be useful to have a further

discussion with Mr. Bullitt as to what he had in mind in assuming
that the Bank would fulfill this role

(e) a, b, c, d, \dots ک

$\rightarrow p, d, \dots$ IDA: $90 \times$

$c \rightarrow \dots$ (b. \dots)

$\rightarrow \dots$

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$\rightarrow \dots$

$\rightarrow \dots$

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$\rightarrow \dots$

Monday, October 12

9:30 Regular morning meeting

Telephone Adler (re training program in Bank)

✓ " Mr. Garland

✓ Call on EDs (to say hello and goodbye)

~~Mr. McCorkle (to see you)~~

Interview Nespoulous-Neuville

Bank personnel (want to come over with various forms to be signed, beneficiary, health coverage, insurance, etc.)

*Mr. Swank - To let you know how things stand
(will show)*

Lunch Avromovic (to be confirmed--instead of the 15th)

(His secretary said he has an appt for Monday and you are busy for the days he was free.)

3:00 Governor Hirata (Japan Development Bank)

4:00 Meeting with Goodman, Twining - re staff