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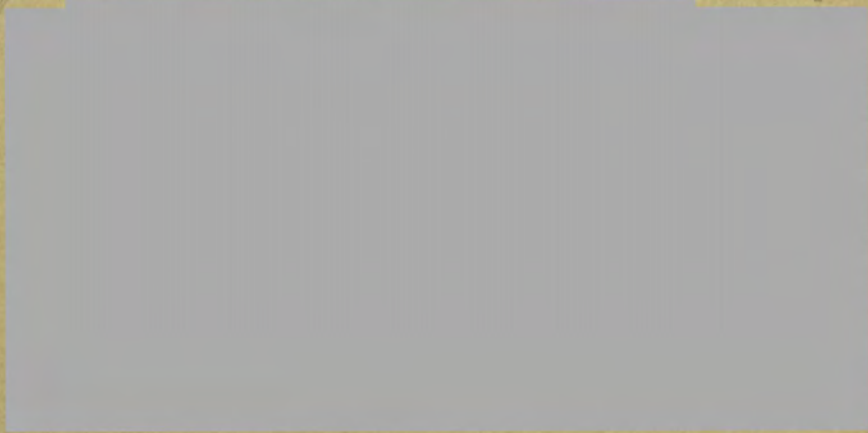


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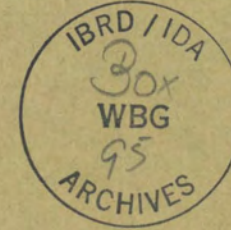
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ADDRESS OF MR. IVAR ROOTH

Chairman and Managing Director of the International Monetary Fund
Annual Meeting of the Bankers Association for Foreign Trade
Boca Raton, Florida

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The International Monetary Fund and Currency Convertibility

The International Monetary Fund was planned for a world of currency convertibility and liberal trade. It is well that it was so planned. The Fund was established as an institution, not merely for a transitional period after the war, but for a long time ahead, and it would have been tragic if its founders had accepted and planned for a world of continuing exchange restrictions and discriminatory exchange practices.

As we all know, the postwar period has not developed as the founders of the Monetary Fund had hoped. In 1944, high hopes were held for the "One World" which would follow the war--- one world in which all nations would live in peace and devote the resources formerly wasted in war to raising the standards of human well-being. Our postwar disappointments in the monetary field are but one facet--- and a minor one--- of this greater disappointment.

The monetary problems of most of the members of the Fund have been intensified by the disappointment of their hope of living in peace with the Communist World. This disappointment has greatly increased their need for defense expenditures and has done this at a time when their resources are urgently needed for peaceful purposes. It has also disrupted the East-West trade which was so important for prewar Europe and Asia. The disruption of East-West trade has increased the dependence of nondollar countries on dollar sources of supply, while the increase in defense expenditures has lessened their ability to earn dollars.

The Fund was established primarily to administer a code of fair and liberal exchange practices and to assist countries in following these practices by providing them with needed currencies to meet temporary disequilibria in their balances of payments. They would thus have time to correct these disequilibria without resorting to restrictions which, if their use were widely extended, could benefit no one. But, in the postwar situation, most of the trade deficits have not been "temporary." They have instead been of such a character that they were not likely to be corrected during any period in which it would have been reasonable to finance them by allowing access to the Fund's resources.

This would probably have been true in any event during the first few years after the war, while the war-ravaged countries rebuilt their productive facilities, replenished their stocks, and re-established their trade connections. Provision for such an inevitable transition period was made by the United States and Canadian loans to Great Britain, and by the Export-Import Bank and International Bank loans for the reconstruction of the principal European countries. The Fund itself played an active, though modest, role during this period, and in 1947 allowed its members to draw nearly \$500 million from it. But the disappointing character of the postwar world, to which I have already referred, prolonged the transition period far beyond the time when these credits were exhausted.

The fundamental difference between the temporary type of trade deficit which the Fund was mainly intended to finance and those which were actually occurring at the end of this first "transition period" (during 1947 and the first part of 1948) was the most important challenge which the Fund has had to meet in the postwar period. Three basic types of response to this challenge were possible.

First, the Fund might have closed its eyes to the real character of the financial problems of its members, and allowed them to use its resources to meet a continuing drain on their monetary reserves. If we had followed this course, the resources of the Fund would long before now have become frozen in inconvertible currencies. The Fund would have lost most of its power to play a constructive role in world affairs—yet the goal of currency convertibility and liberal trade would not have been achieved.

The second possible type of response for the Fund would have been that of complete defeatism. We might have concluded that the Fund was planned to play a role in a different and better world, and that it would have no part of the shrunken and poorer one in which it found itself. The Fund might thereupon have returned its resources to its subscribers and wound up its affairs.

Either of these responses would have been disappointing to our founders-- who conceived the Fund as a living institution, able to adapt itself to the world as it found it and to strive to make that world a better one.

Fortunately, the Fund followed a middle way-- a third type of response avoiding both of the unpleasant alternatives which I have just outlined. This was made possible by the generous and farsighted action of the United States Government in launching the Marshall Aid Plan. With the help of this aid, the European countries have been able, not only to complete the restoration of their productive capacity, but to raise it substantially above what it was before the war. This increase in productive capacity has paved the way for the establishment, after the necessary adjustments in the patterns of trade have been completed, of a viable system of world payments.

At an early stage in the development of the Marshall Plan it was agreed that, during its continuance, the member countries of the Fund receiving Marshall assistance would draw upon the Fund only in extraordinary circumstances. This meant that the resources held in the Fund were conserved for a later period when it might reasonably be expected that steps toward convertibility could be taken and new drawings on the Fund would be reversed after a reasonable interval and the revolving character of the Fund maintained. As a consequence of this decision, drawings on the Fund, which had amounted to nearly \$500 million in 1947, declined to a little over \$200 million in 1948, and to about \$100 million in 1949; in 1950, there were no drawings at all. Since 1950, drawings have again been rising, and amounted to about \$85 million in 1952. A new procedure, of which two members have already availed themselves, has recently been developed to make stand-by credits available to countries that expect to run into temporary balance-of-payments difficulties.

During this period of low transactions-volume, the Fund has, nevertheless, been active in its relations with its members in the fields of exchange rate adjustments, the relaxation of exchange restrictions and technical assistance. It has also advised members which are suffering continuing external deficits to adopt domestic monetary and budgetary policies which will enable them to achieve balance-of-payments equilibrium. In the meantime, the resources of the Fund have been conserved; and the Fund now holds about \$3 1/4 billion in gold and United States and Canadian dollars.

Some observers have ventured to make long-term forecasts of the future transactions-activity of the Fund by projecting into the future its volume of transactions during the past few years. This method of forecast is extremely short-sighted. I can assure you that the Fund

is prepared to operate on a much larger scale as soon as it is satisfied that its resources will be employed in the revolving manner contemplated in the Fund Agreement. And I believe that the time when this will be possible is now fast approaching.

In order to explain my optimism, I should like to say something more about the obstacles which have prevented the establishment thus far of a situation such as I have just envisaged. By this I mean one in which monetary reserves-- both those held by individual countries and those held by the Fund-- could be used with a reasonable assurance that they would be performing their proper function of financing swings in trade balances and would not be merely financing continuing trade deficits.

There have been two main obstacles to the establishment of such a world. One of these can be seen in the trade figures. It is the chronic imbalance in payments between the dollar and the nondollar areas-- the so-called "dollar gap." The other obstacle-- not less important-- lies in the realm of the mind. During much of the postwar period, many of the countries of the world did not want a liberal-trading world governed primarily by the criteria of the market place. They thought that perhaps the interests of the common man might be better served-- and full employment assured-- by a world where continuing internal inflationary pressures were offset by continuing external trade and exchange restrictions. They were hesitant, therefore, to take the steps necessary to assure external balance.

The seriousness of each of these obstacles has greatly diminished in recent years. The dollar gap has narrowed. At the same time, the unfortunate consequences of underrating the significance of the market mechanism have been driven home by hard experience in many countries of the Free World. They have come to believe that this mechanism can provide the good things of life for their people more freely than they can be provided by economies strictly planned internally and heavily restricted externally.

At its high in 1947, the dollar gap was about \$11 billion; by 1952, it had been reduced to about \$1 1/2 billion. The dollar gap is a complex concept. The figures which I have just cited are those used in a special article in the April issue of our monthly bulletin, International Financial Statistics (page ii). In the computations used in this article, private donations, private capital movements, and certain official financing transactions are omitted. Different methods of estimate of the gap are possible. Each would show different absolute amounts, but they would all agree in showing a great decrease in the past few years.

The nondollar world is now closer to standing on its own feet than at any time since the end of the war. The figures for the realized gap are a little larger now than immediately after the outbreak in Korea, but they are not based on an ephemeral commodity boom now as they were then. The competitive position of the nondollar world is stronger and its excessive reliance on U.S. goods has decreased. These are significant facts. But we should not read too much into them. The reduction in the size of the gap has required much effort. In the nature of the case, each additional billion dollar reduction is harder to achieve than was the previous one. The last billion dollars is the hardest of all. They tell me that, in your American game of football, the last yard to the goal line is the hardest.

Also, continuing the analogy with football, the ball might sometimes be pushed back a little. The great reduction in the size of the gap in recent years has been achieved with the aid of a continuing period of prosperity in the United States. Even a minor recession in the United States, with an associated decline in private inventories, would hurt many countries of the world much more than proportionately. For example, a 3 to 5 per cent decline in the Gross National Product of the United States might cut its imports of some raw materials by 50 per cent, or even more, during its first year— that is until U.S. stocks had run down. Such a decline would set back very materially the progress of the raw material countries toward monetary equilibrium.

In the long run, no doubt, such a setback could be overcome by proper policies in both surplus and deficit countries— together with help from the Fund, to which I believe the deficit countries would be entitled under the circumstances. But I want to emphasize that the maintenance of economic stability in the United States is not merely a matter of concern to your own people. It is a matter of vital concern to the whole Free World.

Closely related to this is the interest of the Free World in the stockpiling policies of the United States. It is in the interest of the United States, as well as in that of the rest of the world, that your stockpiling policies should be formulated with sympathetic consideration for the economic and social problems of the raw-material-producing countries. Differences in policies which mean little to you can mean for some of them the difference between prosperity and depression, order and disorder, trade— perhaps even orientation— toward the East or toward the West.

From a practical point of view, it is also necessary in relation to these problems to place a good deal of emphasis on the commercial policy of the United States. Experience has shown that the internal prosperity of the United States is much more important in determining the level of its imports than is its commercial policy. But commercial policy is also

important. The U.S. tariff wall has been lowered substantially since the beginning of the Reciprocal Trade Agreements program in 1934. But the tariffs on many goods are still high, and the administration of the law is very complex. This cuts off many imports which would be welcome to the consumer in this country and which would provide badly needed dollars to the rest of the world.

Probably even more important obstacles to the achievement of balanced trade are the so-called "escape" and "peril point" clauses. These place foreign enterprises considering an attempt to increase materially their sales in the United States or to "break into the American market" on notice that, if they succeed in doing this, the tariff wall may be raised enough to reduce their success to nominal proportions. When, as is often the case, large-scale expenditures, including those for advertising, are necessary to develop a market in the United States and to build up the facilities to serve it, these obstacles may by themselves be sufficient to ensure that the attempt will not be made. The "Buy American" Act which sometimes bars from the U.S. market products that are competitive in even the strictest sense has a similarly discouraging effect.

In the long run-- and, even, in the not-so-long run-- foreigners can buy no more from the United States than they can pay for with the dollars they are currently receiving. Most of these dollars come from U.S. imports, expenditures of U.S. tourists abroad, U.S. purchases of foreign services, especially shipping, net new U.S. investment abroad, private aid and remittances, and aid from the United States Government. The dollars are spent chiefly to purchase U.S. exports, to purchase some U.S. services, and to meet the net amounts due to the United States on account of investment income. If the supply of dollars declines, foreign purchases from the United States must decline also. Therefore, unless we assume an indefinite continuation of U.S. economic aid, U.S. trade obstacles must shut off the market for an amount of U.S. exports-- including, of course, those of agricultural commodities such as cotton, wheat and tobacco-- equivalent in value to that of the imports which they bar, and so can have little net effect on U.S. employment.

While, as I have already stated, U.S. internal prosperity is more important than U.S. commercial policy in determining the level of U.S. imports, a liberalized commercial policy would help to narrow the gap and might close it. It would, furthermore, provide a fresh stimulus to U.S. investment abroad and so contribute to another of the elements helping to narrow the gap.

The improvement in the trade figures to which I have already referred has been accompanied-- and, in large part, it has been brought about-- by a change in the popular attitude toward the function of the market place. This change has been evident in many countries of the Free World. Country after country has become surfeited with rationing at home and restrictionism at its borders, and has taken steps-- principally through monetary and budgetary policies-- to put its economy in order at home and to redress its imbalance abroad. These steps have been attended with a large measure of success. I need only cite the cases of the Netherlands, Western Germany, and Denmark, for example, and, more recently, of Great Britain in improving their external positions through vigorous internal measures. Belgium, which took the necessary steps early, has long had a very strong position. The phrase "trade, not aid" is more than a slogan. It reflects the desire of one country after another to stand on its own feet without the support of economic aid from abroad or hampering restrictions on its own people.

Now, nearly eight years after V-E Day, most countries of the Free World have repaired the devastation wrought by the war and their industrial production has advanced to new highs. The dollar gap has been reduced to small dimensions and most countries are striving to reduce it yet further. The time for wide-spread currency convertibility is no longer in the distant future. While many obstacles may sometimes slow down our progress toward this goal, it should still be made the focus of our present efforts. The Fund has been able to make some contribution to the progress which has thus far been made. It stands ready to make a much larger contribution to the world which lies ahead.



Rooth - May 20, 1954?

Als die Teilnehmer an der Bretton Woods Konferenz sich der Frage einer internationalen Bank zuwandten hatten sie zwei Probleme vor Augen: erstens, den dringenden Bedarf an internationalem Kapital fuer den Wiederaufbau der im Krieg zerstoeerten Produktionsanlagen; zweitens die Wiederbelebung internationaler Investitionen, um Produktion und Lebensstandard, vor allem in wirtschaftlich nicht voll entwickelten Teilen der Welt, zu heben.

Man war sich darueber klar, dass diese Aufgaben grosse Kapitalmengen erfordern und, besonders im Anfang, beträchtliche Risiken mit sich bringen wuerden. Es konnte daher nicht erwartet werden, dass, ohne irgendeine Form staatlicher Garantie, genuegend Privatkapital fuer diese Zwecke verfuegbar sein wuerde. Um diese Schwierigkeiten zu ueberkommen, wurde die Bank statutengemaess ermächtigt, Kredite fuer Wiederaufbau und Entwicklung entweder aus eigenem Kapital oder aus den Erloesen von Emissionen zu gewaehren. Die finanzielle Struktur der Bank wurde so gestaltet, dass die Risiken von allen Mitgliedern getragen und, soweit als moeglich, der wirtschaftlichen Tragfaehigkeit entsprechend verteilt werden.

Die Bank ist eine internationale Koerperschaft. Das gesamte Kapital wird von den beteiligten Regierungen gezeichnet. Kein Land kann Mitglied der Bank werden, ohne gleichzeitig Mitglied des Fonds zu sein. Gegenwaertig sind alle 56 Mitglieder des Fonds auch Mitglieder der Bank. Das autorisierte Kapital der Bank belaeuft sich auf 10 Milliarden Dollar, von denen Anteile im Gegenwerte von mehr als 9 Milliarden Dollar gezeichnet

worden sind. Von diesen 9 Milliarden Dollar ist jedoch nur ein Teil eingezahlt worden, und von dem eingezahlten Kapital steht wiederum nur ein Teil unmittelbar fuer Anleihen zur Verfuegung.

Die Kapitalzeichnung jedes Mitgliedsstaates zerfaellt in drei Teile. Zunaechst sind anlaesslich des Beitrittes 2% der Zeichnung in Gold oder in U.S. Dollar zahlbar; diese Betraege koennen sofort fuer Anleihen verwendet werden. Zweitens sind 18% in der Waehrung des Mitgliedsstaates zu entrichten; diese Summen koennen nur mit Zustimmung des betreffenden Staates ausgeliehen werden. Die verbleibenden 80% duerfen ueberhaupt nicht fuer Anleihen verwendet werden. Sie sind ausschliesslich der Erfuellung von Verbindlichkeiten vorbehalten, die der Bank aus ihren Anleihen oder Garantien erwachsen. Diese Kapitalstruktur soll folgenden Zwecken dienen: Einerseits soll sie die Bank mit reichlichem Eigenkapital versehen, welches fuer Anleihen verfuegbar ist; andererseits soll sie einen noch groesseren Garantiefonds, in Form der nicht eingezahlten 80% der Kapitalzeichnungen, bereitstellen. Dieser Garantiefonds soll es der Bank ermoeglichen, Kapital entweder durch Ausgabe von eigenen Obligationen an private Kapitalgeber oder aber durch Bankgarantien zu beschaffen. Das Hauptgewicht lag von allem Anfang an nicht so sehr auf direkter Kreditgewaehrung seitens der Bank, als vielmehr auf dem Gedanken, dass die Bank durch derartige Garantien private Auslandsinvestitionen erleichtern und foerdern sollte. Tatsaechlich ist die Bank, wiewohl sie eine oeffentliche Organisation ist, deren Mitgliedschaft ausschliesslich Staaten vorbehalten bleibt, fuer die Beschaffung ihrer finanziellen Mittel vorwiegend auf den privaten Kapitalmarkt angewiesen.

Die Gewaehrung von Garantien im internationalen Kapitalverkehr ist an sich nichts Neues; in der Zeit zwischen den beiden Weltkriegen waren mehrere Anleihen an europaeische Regierungen von den Regierungen anderer europaeischer Staaten garantiert worden. Das Neue der im Bankstatut vorgesehenen Garantien besteht darin, dass die Risiken auf internationaler Basis getragen werden. Jedes Mitglied der Bank, ob Kreditnehmer oder Kreditgeber, ist bis zur Hoehe seiner Kapitalzeichnung fuer die ausstaendigen Kredite und Garantien der Bank haftbar. Der Betrag bis zu welchem Risiken garantiert werden koennen findet seine Grenze in der Vorschrift, dass die Gesamtsumme der von der Bank gewaehrten Anleihen und Garantien nicht mehr als 100% ihres gesamten Kapitals, ihrer Reserven und Ueberschuesse betragen darf.

Die Gruender der Bank waren sich der Notwendigkeit bewusst, die Fehler zu vermeiden, die bei Auslandsinvestitionen der Vergangenheit, besonders in der Zeit zwischen den beiden Weltkriegen, so haeufig gemacht worden waren. Kapital, das durch Emission von Wertpapieren auf auslaendischen Maerkten aufgebracht worden war, hatte oft nur wenig oder ueberhaupt nicht zur Hebung der Produktivitaet im kreditnehmenden Lande beigetragen. Fuer viele dieser Anleihen wurden hohe Zinsen beansprucht. Oft wurden sie ohne entsprechende Pruefung der Kreditfaehigkeit des Schuldnerlandes gewaehrt. Diese Praktiken haben viel dazu beigetragen, die zahlreichen Insolvenzen der dreissiger Jahre herbeizufuehren.

Um diese Fehler der Vergangenheit zu vermeiden, sieht das Bankstatut eine Reihe von Bestimmungen vor, die bei Gewaehrung von Krediten oder Garantien seitens der Bank eingehalten werden muessen. Kredite sollen

produktiven Zwecken dienen und koennen in der Regel nur zur Deckung des Devisenbedarfes fuer bestimmte Wiederaufbau- oder Entwicklungsprojekte verwendet werden. Die zur Finanzierung vorgeschlagenen Projekte muessen in jeder Hinsicht sorgfaeltig geprueft werden. Ueberdies muss sichergestellt werden, dass die ertragreichsten und dringendsten Projekte zuerst in Angriff genommen werden. Kredite koennen an Regierungen von Mitgliedslaendern und an andere oeffentliche Stellen, sowie auch an Handels-, Industrie- und landwirtschaftliche Unternehmungen gegeben werden, die ihren Sitz im Gebiete eines Mitgliedslandes haben. Sofern die Regierung nicht selbst als Kreditnehmer fungiert, ist eine Garantie erforderlich, die entweder von der Regierung, oder von der Zentralbank, oder aber von einer anderen der Bank genehmen Stelle geleistet werden kann. Die Statuten bestehen ueberdies auf vorsichtiger Behandlung von Kreditansuchen; die Faehigkeit des Kreditnehmers, die eingegangenen Verpflichtungen zu erfuellen, muss gebuehrende Beruecksichtigung finden. Die Bank ist ferner ausdruecklich verpflichtet, sich davon zu ueberzeugen, dass eine Anleihe nur fuer die Zwecke verwendet wird, fuer die sie gewaehrt wurde; es sollen dabei lediglich wirtschaftliche und nicht politische oder andere nicht-oekonomische Erwaegungen massgebend sein.

In diesem Zusammenhang moechte ich noch zwei weitere Bestimmungen des Bankstatutes erwahnen, die den Krediten der Bank ihren besonderen Charakter verleihen. Die erste dieser Bestimmungen richtet sich gegen "gebundene Anleihen" (tied loans). Die Gewaehrung eines Kredites darf nicht an die Bedingung geknuepft werden, dass der Erloes fuer Importe

oder Dienstleistungen eines bestimmten Landes (oder bestimmter Laender) verwendet wird. Zweitens muss die Bank sich vor Gewaehrung eines Kredites davon ueberzeugen, dass der betreffende Kreditnehmer unter den gegebenen Marktverhaeltnissen nicht in der Lage ist, seinen Kreditbedarf zu annehmbaren Bedingungen auf dem privaten Kapitalmarkt zu decken.

Die Entwicklung der Anleihetaetigkeit.

Ogleich die Bank statutengemaess dazu verhalten ist, Entwicklungs- und Wiederaufbauprojekte in gleichem Masse zu beruecksichtigen, war man sich doch in Bretton Woods darueber klar, dass waehrend der ersten Zeit Wiederaufbaukredite im Vordergrunde stehen wuerden. Die ersten vier Anleihen im Jahre 1947, die sich auf fast 500 Millionen Dollar beliefen, waren auch tatsaechlich Wiederaufbauzwecken gewidmet.

Davon hat Frankreich 250 Millionen, Holland 195 Millionen, Daenemark 40 Millionen und Luxemburg 12 Millionen Dollar erhalten. In den ersten drei Faellen wurden die Erloese zur Finanzierung von Importen verwendet, die verschiedenen Wirtschaftszweigen - Industrie, Landwirtschaft, Verkehrs- und Energiewesen - dienen sollten. Die eingefuehrten Gueter kamen fast ausschliesslich aus den Vereinigten Staaten und bestanden zu etwa gleichen Teilen aus Rohstoffen (vor allem Erdoel, Baumwolle und Holz) und Fertigwaren (vor allem industrielle und landwirtschaftliche Maschinen, Lokomotiven, Schiffe und Baustahl). Der Kredit an Luxemburg war speziell fuer den Wiederaufbau der Stahlindustrie bestimmt.

Diese Anleihen ermoeeglichten es den kreditnehmenden Laendern, die

Einfuhr von Guetern fuer Wiederaufbau- und fuer Produktionszwecke aufrecht zu erhalten und habensomit dazu beigetragen, einen kritischen Rueckgang der Produktion, wenn nicht sogar einen voelligen Zusammenbruch der Wirtschaft zu vermeiden.

Es wurde aber bald klar, dass der tatsaechliche Bedarf fuer den wirtschaftlichen Wiederaufbau in Europa weit ueber das hinausging, was man in Bretton Woods erwartet hatte. Physische Zerstoerung, Verfall von Handel und Verkehr und strukturelle Verlagerungen der Wirtschaft hatten alle urspruenglichen Vorstellungen ueberstiegen. Dazu kam, dass unvorhergesehene politische Konflikte die wirtschaftlichen Schwierigkeiten weiter verschaeerften.

Die Bank erkannte bald, dass sie zwar in der Lage war den unmittelbaren und dringendsten Bedarf zu decken, dass aber die im weiteren Verlaufe erforderlichen Mittel fuer den Wiederaufbau der europaeischen Wirtschaften weit ueber die Mittel der Bank hinausgingen. Der europaeische Kapitalbedarf ging uebrigens auch weit darueber hinaus, was die betreffenden Laender mit einiger Aussicht auf Rueckzahlungsmoeglichkeit haetten entlehnen koennen.

Die Bank setzte ihre Anleihtaetigkeit auf dem europaeischen Kontinent zwar auch nach Verwirklichung des Marshallplanes im Frueshjahr 1948 fort; die gewaehrten Kredite hielten sich aber in engen Grenzen. Waehrend im Jahre 1947 etwa 500 Millionen Dollar zur Verfuegung gestellt worden waren, beliefen sich die gesamten Kredite an europaeische Laender in den folgenden sechs Jahren nur auf 293 Millionen Dollar. In diesem Betrage sind Kredite

an ihre Ueberseegebiete nicht inbegriffen. In mehreren Laendern, z.B. in Belgien, Holland, Island und in der Tuerkei, wurden solche Bankkredite zusammen mit Marshallmitteln fuer Investitionszwecke verwendet. In der Tuerkei, zum Beispiel, wurden Marshallmittel zum Ankaufe von Traktoren zwecks Hebung der landwirtschaftlichen Produktion (vorwiegend Weizenbau) und zum Strassenbau verwendet. Die Bankkredite finanzierten die Errichtung von Getreidespeichern und den Ausbau von Hafenanlagen.

Die meisten dieser spaeteren Anleihen waren nicht allein fuer Wiederaufbau, sondern, darueber hinaus, zur Hebung der europaeischen Produktion bestimmt. Beispiele dieser Art sind die in den Jahren 1950 und 1953 gewaehrten Industriekredite an die Tuerkei; der Kredit an Belgien, im Jahre 1951, der zu den Kosten des Zehnjahrplanes fuer den Belgischen Kongo beitragen sollte; die Kredite an Finnland in den Jahren 1949 und 1952 fuer den Ausbau der Elektrizitaetserzeugung und der Holzindustrie; und schliesslich die beiden Kredite an Italien in den Jahren 1951 und 1953 zur Foerderung des Zwoelfjahrplanes fuer die Entwicklung Sueditaliens und der Inseln Sardinien und Sizilien.

Entwicklungskredite.

Seit dem Jahre 1948 haben die Anleihen der Bank vorwiegend der langfristigen Finanzierung produktiver Anlagen in wirtschaftlich wenig entwickelten Laendern gedient. Die sich hier ergebenden Probleme sind von denjenigen des europaeischen Wiederaufbaues sehr verschieden. Hier handelt es sich nicht einfach darum, die durch den Krieg entstandenen

Luecken in den hochentwickelten Produktionssystemen europaeischer Volkswirtschaften auszufuellen. In den primitiven Wirtschaften kommt es vielmehr darauf an, die Grundlagen zu schaffen, auf die eine moderne Wirtschaft aufgebaut ist: Kraftwerke, Strassen, Eisenbahnen, Hafen- und Bewaesserungsanlagen und dergleichen mehr. Meist verfuegen solche Laender auch nur ueber wenige fuehrende Wirtschaftspolitiker, die imstande sind, Investitionsprogramme zu entwerfen. Ueberdies herrscht auch Mangel an technisch und administrativ geschulten Fachleuten, deren man zur Durchfuehrung der einzelnen Projekte bedarf. Schliesslich haben solche Laender haeufig nur sehr beschraenkte Moeglichkeiten, das wenige, im Lande selbst verfuegbare Kapital zu mobilisieren, das fuer derartige langfristige Investitionen herangezogen werden koennte. Infolgedessen war es von Anfang an klar, dass die Bank in dieser Richtung nicht mit so raschen Fortschritten rechnen konnte wie auf dem Gebiete des Wiederaufbaues.

Die ersten Anleihen fuer wirtschaftliche Entwicklung wurden im Jahre 1948 in Suedamerika gewaehrt. Bisher hat die Bank dort mehr investiert als in irgendeinem anderen der wenig entwickelten Erdteile. Insgesamt wurden in Suedamerika Kredite in der Hoehe von 475 Million Dollar an elf verschiedene Staaten gegeben; Brasilien erhielt den gressten Kredit - 175 Millionen Dollar.

Der im Jahre 1949 gewaehrte Kredit an Indien war die erste Anleihe auf dem Asiatischen Kontinent. Im naechsten Jahre folgten Kredite an Irak, Australien und Aethiopien. In Asien wurden insgesamt ueber 220 Millionen

Dollar investiert, wovon Indien mehr als die Haelfte erhielt. Die Gesamtsumme der in Afrika gewaehrten Kredite betraegt ungefaehr 200 Millionen Dollar; ueber die Haelfte wurde der Suedafrikanischen Union zur Verfuegung gestellt. Australien hat 20 $\frac{1}{2}$ Millionen Dollar erhalten.

Die Entwicklungskredite der ersten Jahre wurden vorwiegend fuer Energiewirtschaft und Verkehrswesen verwendet; solche Investitionen sind besonders geeignet, die Entwicklung weiterer Produktionszweige zu foerdern. Fuer Investitionen in Konsumgueter-Industrien ist es weniger schwer, Privatkapital heranzuziehen, wie fuer die von der Bank finanzierten Investitionen in Kraftwerke, Strassenbau und aehnliche Projekte, die grossen Kapitalaufwand erfordern, aber nur bescheidene Ertraege abwerfen.

Bisher hat die Bank Kredite in der Hoehe von 506 Millionen Dollar fuer den Ausbau von Elektrizitaetswerken gewaehrt. Abgesehen von den Wiederaufbau-Krediten stellen sie die groesste Gruppe von Bankanleihen dar. Etwa 37 $\frac{1}{2}$ Millionen Dollar waren der Entwicklung des Verkehrswesens gewidmet - vorwiegend dem Bau von Eisenbahnen, Strassen und Hafenanlagen. In diesem Zusammenhange sind auch die Kredite fuer Ausgestaltung des Telefon- und Telegrafienwesens in der Hoehe von 26 Millionen Dollar zu erwahnen.

Ein drittes Gebiet von nicht geringer Bedeutung bilden die Kredite fuer die Entwicklung der Landwirtschaft. Bisher wurden insgesamt Betraege von 163 Millionen Dollar fuer Bewaesserungsanlagen, Boden-Meliorationen und fuer die Einfuhr landwirtschaftlicher Maschinen beigelegt. Auf dem Gebiete von Bergbau und Industrie hat die Bank 177 Millionen Dollar

investiert, vorwiegend in Europa. Schliesslich wurden Anleihen in der Hoehe von 110 Millionen Dollar fuer allgemeine Investitionsprogramme gegeben; diese Programme erstreckten sich auf die meisten, wenn nicht auf alle hier aufgezählten Wirtschaftszweige.

Bisher habe ich der Einfachheit halber immer nur von Dollar-Betraegen gesprochen; eigentlich haette ich hinzufuegen muessen, dass es sich haeufig um den in Dollar umgerechneten Gegenwert anderer Waehrungen gehandelt hat. Die meisten Anleihen wurden zwar in Dollar gewahrt, insgesamt aber wurden Kredite in 14 verschiedenen Waehrungen gegeben. Wie Sie wissen, stammen die Mittel der Bank aus zahlreichen Laendern, teils aus den Einlagen der Mitgliedsstaaten und teils aus den Erloesen von Emissionen.

Der Gesamtbetrag von 870 Millionen Dollar, der bisher auf dem Kapitalmarkt aufgebracht wurde, ist fast ebenso hoch wie das von den Mitgliedsstaaten eingezahlte Kapital, das sich auf 885 Millionen Dollar belaeuft. Die Zeit ist also nicht mehr ferne, wenn Kapitalmaerkte eine bedeutendere Quelle fuer Aufbringung des Bankkapitales bilden werden wie die Zeichnungen der Mitglieder.

Bisher sind 18 Emissionen von Obligationen vorgenommen worden, davon 9 in U.S. Dollar, 7 in Schweizer Franken, eine in kanadischen Dollar und eine in Pfund Sterling. Von den insgesamt ausstehenden Obligationen in der Hoehe von 750 Millionen Dollar lauten 665 Millionen auf Dollar. Es ist eine interessante und erfreuliche Tatsache, dass etwa 165 Millionen von diesen Dollarobligationen im Besitze privater Kapitalgeber ausserhalb

der Vereinigten Staaten sind. Die in den letzten Monaten zu verzeichnende erstaunliche Staerkung der Kapitalmaerkte wird der Bank bei kuenftigen Emissionen sehr zustatten kommen.

Die der Bank zur Verfuegung stehenden Mittel sind aber nicht auf das eigene Kapital und die aus der Emission von Obligationen erfließenden Betraege beschraenkt; das Anleihekapital kann fernerhin auch noch durch den Verkauf von Schuldnerobligationen aus dem Portefeuille der Bank aufgefuellt werden. Solche Verkaeufe erfolgen entweder mit oder ohne Garantie der Bank und haben bis jetzt einen Gesamtbetrag von rund 90 Millionen Dollar erreicht.

Bisher habe ich mich darauf beschraenkt, die Bank als ein Finanzierungs-Institut zu beschreiben. Ich moechte aber hinzufuegen, dass der Wirkungskreis der Bank ueber reine Finanzierungsfragen hinausgeht. Die Bank betrachtet sich als eine Institution zur Foerderung wirtschaftlicher Entwicklung; ihre Taetigkeit in wenig entwickelten Laendern hat gezeigt, dass sie durch technischen Rat und Beistand in Bezug auf Fragen wirtschaftlichen Fortschrittes viel zu diesem Fortschritt beitragen kann.

Zum Teil wurden solche Dienste im Zusammenhang mit der Gewaehrung von Anleihen erwiesen. Sie betrafen Fragen der Prioritaet der einzelnen ins Auge gefassten Projekte, Vorschlaege bezueglich ihrer technischen Durchfuehrung, administrative Fragen und die Heranziehung von Inlandskapital zur teilweisen Kostendeckung.

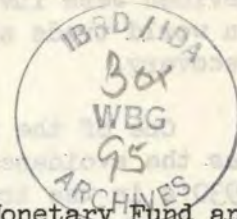
Mit der Zeit aber wurde die Bank immer haeufiger zur Mitwirkung an

Wirtschaftsproblemen herangezogen, die nicht unmittelbar mit der Gewährung von Anleihen verknüpft sind. Die Bank hat ihr besonderes Augenmerk der Ausarbeitung von Programmen zur wirtschaftlichen Entwicklung zugewendet. Ueber Ersuchen von Mitgliedsländern ist in wiederholten Fällen eine Gruppe von Fachleuten in solche Länder entsandt worden, um deren Wirtschaft zu studieren und um Vorschläge auszuarbeiten, die als Basis fuer Entwicklungs- und Investitionsprogramme dienen sollen. Bisher hat die Bank solche Studien-Kommissionen in 12 Ländern in vier Kontinenten entsandt. Die beiden letzten - nach Syrien und Malaya - stehen kurz vor der Beendigung ihrer Aufgaben.

Ferner sind Fachleute, die entweder dem Beamtenstab der Bank angehören oder von auswärts herangezogen werden, mehrfach zur Lösung anderer Wirtschaftsprobleme herangezogen worden. Darunter waren zum Beispiel Fragen der Schaffung neuer und Koordinierung bestehender öffentlicher Stellen, Festsetzung von Richtlinien fuer Wirtschafts- und Finanzpolitik oder Fragen der Einrichtung und des Ausbaues des inländischen Kapitalmarktes. In all diesen Fällen hat die Bank der Ueberzeugung Ausdruck gegeben, dass Heranziehung und Ausnuetzung der eigenen Mittel eines Landes von weit grösserer Bedeutung ist als die finanzielle Hilfe durch Auslandskredite; ich moechte damit schliessen Ihnen zu sagen, dass wir im Fonds uns dieser Ansicht ~~vollständig~~ anschliessen.

Speech by Mr. Ivar Rooth,
Managing Director of the International Monetary Fund
at the Handelshochschule,
University of St. Gallen,
Switzerland

Thursday, May 20, 1954, 8:15 p.m.



I want to talk to you today about the International Monetary Fund and the International Bank for Reconstruction and Development; I will refer to them as the Fund and the Bank. Forty-four nations associated in the war, which was then still undecided, met in the summer of 1944 at Bretton Woods, New Hampshire, to formulate a program designed to secure order and stability in international exchange relationships, to promote sound expansion of international trade and investment, to assist in the reconstruction of war-torn economies and in the development of underdeveloped countries. The program was conceived as a part of a broader structure--of which the United Nations was to be the most important single unit--with the overriding objective of a prosperous and peaceful world.

At the time of the Bretton Woods Conference there prevailed an atmosphere of optimism. The hope that all nations would live in peace was not considered an idle dream. There was, in fact, an expectation that part of the resources formerly wasted in war would be devoted to raising the standards of living of people everywhere. It is a source of deep regret to all of us that these high aspirations have not been realized.

The Fund and the Bank were planned for a peaceful world--a world of liberal trade and currency convertibility. They are designed not merely for a transition from war to peace but as a permanent structure for world-wide cooperation in the fields of currency and international investment. The problems of most of the members of the Fund and the Bank have been intensified by the failure of their wartime hope of peaceful cooperation between the communist and non-communist nations. But this does not mean the Fund and the Bank are unable to perform important and useful functions for their members. I shall try to describe how they have been operating during this troublesome period.

First, I will try to describe the Fund and its work and then I will turn to the Bank.

The Fund

The monetary experience following the first World War was probably the most important single factor that determined the character of the Fund. Immediately following that war there were, as you know, extensive monetary disorders in a number of countries, with sharp fluctuations in exchange rates and the complete destruction of some currencies.

During the 1920's, most countries managed to stabilize exchange rates but the rates adopted were not always appropriate. This period of stabilization was almost immediately followed by problems of even greater magnitude resulting from the great depression of the early 1930's. Many countries

were forced off the gold standard. The exchange mechanism which had been reestablished in the 1920's broke down once again. Competitive currency depreciation was practiced and a host of discriminatory monetary devices were invented and used. These practices intensified the decline in world trade and undoubtedly made the depression more severe and retarded recovery.

One of the principal objectives that the Fund was intended to achieve was the avoidance of any repetition of this experience of the 1920's and 1930's in the transition from war to peace after the Second World War. The Fund was to act as a center for collaboration between its members. It was to promote exchange stability. Exchange restrictions on current international transactions were ultimately to be eliminated. And the exchange weapons of economic warfare were to be abolished. To help its members to reach these goals, the Fund was supplied with the equivalent of more than 8 billion dollars in gold and member currencies to be used for short-term stabilization operations.

The Fund now has 56 members from all parts of the world. All the Western European countries except Switzerland, Spain, Portugal and Eire are members. The Soviet Union participated in the Bretton Woods Conference and was eligible for membership but never joined the Fund. Poland, Czechoslovakia and Yugoslavia joined the Fund when it was first formed, but Poland subsequently withdrew. We maintain close working relations with the Bank and with UN. The Fund maintains, through its office in Paris, continuous contact with the Organization for European Economic Cooperation (OEEC). We cooperate closely with the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) and we have very good relations with the Bank for International Settlements (BIS) in Basle.

Each member of the Fund is assigned a quota which is the basis of its subscription to the Fund, the basis of its voting strength in the Fund and the measure of its ability to obtain financial assistance from the Fund. Our Board of Governors meets annually with one Governor and an Alternate representing each member. The Governors elect a Board of Executive Directors which now numbers 16. These Directors have voting strength in the Executive Board equal to the voting strength of the countries who elect or appoint them. The Executive Board functions on a continuous basis and meets as often as its business requires. The Chairman of the Board is the Managing Director, who is also the head of the operating staff. The Managing Director has a Deputy who acts for him in his absence, both as Chairman of the Board and as head of the staff. The staff is internationally recruited and now numbers approximately 440 people drawn from 42 different countries.

The Fund constitutes a code of behaviour for its members. This code recognizes the importance of exchange rates to trade and payments relationships, and makes the establishment and modification of exchange rates a matter of international responsibility. Members agree with the Fund on par values and a member who wishes to change its par value by more than an initial 10% must obtain the concurrence of the Fund. Members are obligated to maintain stable rates of exchange based on these par values. They are not to permit rates to vary by more than 1% on either side of the par values. Similarly, countries with multiple exchange rates are obliged to consult

the Fund and obtain its approval before changing any of these rates, establishing new ones, or changing the categories of transactions to which the different rates apply. By and large, exchange adjustments since the Fund was established have been conducted in an orderly fashion. The widespread devaluations in the fall of 1949 are an example. There have, as you know, been several other isolated cases of changes in exchange rates and these, too, have in the main been brought about through the procedures established by the Fund Agreement. The Fund stands for stability of rates and orderly changes in rates, but not for rigid rates that are to be permanently frozen. When a par value has become inappropriate because of changes in the economic position of a country, the Fund encourages a change to correct the fundamental disequilibrium that has come into being. Since the Fund was established there has been a remarkable absence of friction in the economic relations of its members arising out of adjustments of exchange rates, and competitive devaluation of currencies has been avoided.

Even when countries have felt that they were no longer in a position to maintain fixed rates of exchange that move only within the narrow margins prescribed by the Fund's rules, they have consulted the Fund, and have explained in detail the difficulties that they face. The Fund has raised no objection to the fluctuating exchange rates of Canada and Peru. In fact, the relationship of Peru to the Fund is an outstanding example of this kind. Several years ago Peru abolished all exchange restrictions and virtually all of its import restrictions. As their monetary reserves were very limited, the Peruvian authorities believed that a policy of this kind could not be safely maintained unless the exchange rate was allowed to fluctuate. The Fund did not object. Last winter, however, the movements of the exchange rate in the market, which is entirely free, became a disturbing factor. This was due to several causes. One important cause was the fact that new investment was in excess of the resources available to the country, including the capital it could get from abroad. The Peruvian authorities wished to establish a greater degree of stability. They contacted the Fund informally and confidentially. A team of Fund experts then went to Peru to examine the situation. Peru embarked upon a program of economic stabilization. The Fund was prepared to back their program with a substantial stand-by arrangement. This arrangement was worked out at the same time that Peru negotiated a stabilization agreement with the United States Treasury and a line of credit with a New York bank.

Most Fund members have had elaborate exchange controls for many years and use them as an important means of dealing with their balance of payments problems and other economic difficulties. One of the Fund's principal goals is ultimately to bring about the removal of all these restrictions on current international payments. The achievement of this goal depends primarily upon the policies followed by the members themselves. Internal financial stability is the essential prerequisite to freedom in exchange transactions. Since the war, the greatest problem that countries have faced in trying to bring about internal financial stability has been the elimination of inflation. When the money supply grows more rapidly than the production of goods for consumption, export and investment, prices rise. Consequently the excessive demand created by the inflated money supply exerts pressure on the balance of payments through an increased demand for imported goods. During the post-war period, inflationary pressures have arisen from central bank financing of government

deficits, sometimes as the result of over-ambitious reconstruction and development programs, and from extensive bank credit which the monetary policies adopted in many countries have not sufficiently kept in check. The Fund has, throughout this period, consistently urged its members to adopt budgetary and credit policies of a kind that will terminate inflationary pressures.

The Fund can advise and assist its members to bring about internal financial stability, but only the actions of the governments themselves can accomplish this end. Until inflationary pressures are eliminated, a country will find itself in continual balance of payments difficulties, and the excess demand for imports will have to be checked in one way or another. Exchange restrictions have been one of the most widely used techniques for suppressing the demand for imports.

The basic principle of the Fund Agreement in regard to exchange restrictions is that their imposition and modification is, like exchange rates, a matter of international concern and international responsibility. While the Agreement allows members freedom in handling capital transfers, it requires the ultimate elimination of all exchange restrictions on current international transactions (that is, payments for trade and services). The disruption of trade caused by the Second World War, the need for extensive reconstruction of production facilities, and the difficulties that were involved in re-establishing normal trade and payments relationships, led to the inclusion in the Fund Agreement of certain transitional arrangements concerning exchange restrictions. Under these arrangements members are free to maintain exchange restrictions on current transactions and to adjust them to changing circumstances. In exercising this privilege, however, members are to keep in mind the purposes of the Fund and to withdraw as soon as feasible their payments restrictions. In addition, members maintaining exchange restrictions under these transitional arrangements have since 1952 had to consult the Fund each year regarding their continuation. Most of the Fund's members are now involved in these consultations.

The Fund has been hard at work in carrying out these rules concerning exchange restrictions. Significant progress has been made in bringing about an atmosphere of collaboration and consultation among countries whose activities and policies affect each other's trade and payments positions. This work proceeds quietly and without fanfare. Nevertheless, I believe that it has been of considerable use to us and to our members and will become increasingly useful in the years immediately ahead.

We have been trying in the course of the annual consultations on exchange restrictions to increase the awareness of governments of the necessity for an economy balanced internally as a prerequisite to free exchange transactions and convertibility of currencies. During the first series of annual consultations in 1952, we found many countries so preoccupied with pressing internal and external problems that they were unable to consider the substantial relaxation of exchange restrictions or the achievement of convertibility of currencies as a realistic possibility within the foreseeable future. However, a number of major trading nations now seem to regard the achievement of convertibility or a significant diminution of exchange restrictions as both desirable and practical objectives for the not too distant future. The Fund will continue to urge its members to move in this direction.

Side by side with its responsibilities for exchange rates and exchange restrictions, the Fund is the custodian of assets whose aggregate value is the equivalent of 8.7 billion dollars. These resources are intended to be used by members for short-term assistance in meeting deficits in their current account balance of payments. Members are intended to use assistance from the Fund in the same way that they use their own monetary reserves, that is, to meet the inevitable fluctuations in their external payments position so as to avoid having to make sometimes difficult adjustments in policy every time there is a change in the trade or payments pattern. Use of the country's own reserves and help from the Fund can give a country time to make adjustments gradually or to avoid changes in policy which after a brief period might prove to have been unnecessary.

The Fund is often referred to as a central bank of the central banks. That is correct in the sense that we deal only with member governments and their central banks. But we are not a bank that may give credits to its members along the lines normally followed by central banks or other banks. Nor do we invest our money to earn interest. All our assets are in gold, non-interest bearing notes of the member governments and in non-interest bearing checking accounts with the central banks in the member countries. The financial assistance that a member gets from the Fund takes the following form: The member buys the currency it needs, be it dollars, sterling or another currency, from the Fund, and credits the Fund's accounts at its central bank with the corresponding amount of its own currency. The member repays by repurchasing its own currency from the Fund with gold or dollars. Each time a member draws on the Fund it has to pay a fee of 1/2 of 1%. If the Fund has more of a member's currency than 100% of its quota, the member also has to pay interest on the amount in excess of the quota. These drawings may not normally exceed 25% of any member's quota in a single year. Nor are they to exceed for any member a total equivalent to its quota. The Fund has, however, authority to waive these limits in special cases and has done so on several occasions in recent years. The waivers granted have related to the limit of 25% annually and not to the limitation on total transactions. Drawings are not effected automatically. The Fund has the right to review requests for these credits. The credits may be used only to meet payments deficits that are temporary in character. The policies of the Fund regarding the use of its resources by its members have changed several times in the past and will, undoubtedly, be changed from time to time in the future. Adjustments are made in these policies as the international economic climate changes, as old problems are resolved and new problems arise for Fund members, and as greater insight is gained into the activities in which the Fund can engage that are likely to be most appropriate and helpful for the membership as a whole.

Since the Fund began exchange transactions in March, 1947, the total drawings by members have amounted to a little over 1.1 billion dollars. The volume of transactions has varied considerably from year to year. More than half of the total took place in 1947 and 1948--the critical payments period which preceded the Marshall Aid Program. Most of these drawings were by countries in Europe and the Sterling Area. At that time the Fund decided to help its members with the result that the hardships of those years were at least to some extent alleviated. When the large-scale aid program of the United States came into effect the need for assistance from the Fund by countries receiving Marshall aid declined. Those members were advised to conserve their positions

in the Fund for later years when aid from the United States would no longer be forthcoming. Thus, from 1949 to 1951 our transactions amounted to only about 135 million dollars, and were mainly with countries not receiving Marshall Plan grants. Since the end of the large-scale economic aid program of the United States, Fund operations have again increased. During 1952 and 1953, our transactions have totaled more than 310 million dollars. In 1954 we have thus far had drawings of 22.5 million dollars. In addition, there are now outstanding stand-by arrangements totaling 112.5 million dollars.

The Fund Agreement imposes upon members certain compulsory repurchase obligations. Members whose monetary reserves of gold and convertible currencies are larger than their quotas are required to repurchase from the Fund each year an amount of their own currency held by the Fund equal to half of any increase of their reserves at the end of the Fund's fiscal year, April 30. In addition to this compulsory repurchase obligation, members may, of course, voluntarily repurchase their currencies from the Fund. A member's indebtedness to the Fund is also reduced if other members draw its currency from the Fund. More than half of total Fund drawings have been repaid.

Our resources constitute a second line of reserves for our members. Thus, the central problem for the Fund in developing its policy regarding use of its resources has been to give members an assurance that, when they need temporary balance of payments assistance and are following appropriate policies, these resources will be available to them. With this in mind we have in recent years developed a series of policy decisions. Our members have been made fully aware that they are expected to repay amounts borrowed from the Fund within a time suited to their payments problem; that this period is not generally to exceed three years, and that the outside limit for the period of a loan is five years. Thus, members know that they cannot look to the Fund for long-term loans, but must arrange their policies in such a way that they will be able to repay the Fund in a relatively short time.

We have also taken steps to give members some assurance that our resources will be available to them under appropriate circumstances. For example, members can draw on the Fund up to an amount equal to the gold or dollars they have contributed to the Fund. We refer to this as our "gold tranche" policy. Perhaps more important, however, is the system of stand-by arrangements. By a stand-by arrangement a member is assured that within a defined period of time it may draw from the Fund up to a fixed amount at any time at its own discretion. Usually the period is six months, but it can be, and, in two cases, has been one year. With a stand-by arrangement a country can take somewhat greater risks regarding the maintenance or introduction of convertibility, or the relaxation of exchange restrictions and discriminations, than would otherwise be possible.

To make it possible for the Fund to carry out the activities I have just described, it is, of course, essential that our staff follow closely economic developments in all of our member countries. Only in this way can we be in a position to make decisions rapidly when a member proposes a change in its par value or asks for financial assistance from the Fund. To keep ourselves sufficiently informed, we have established regular procedures for the submission of data by all our member countries. In addition, our technicians keep in close touch with the technicians of member treasuries and central banks, and members of our staff frequently visit the member countries on whose problems they work.

Some of the information that the Fund collects is, of course, confidential. There is, however, a considerable volume of data not supplied on a confidential basis that the Fund publishes at regular intervals. We publish monthly "International Financial Statistics", which contains a mass of data on monetary reserves, international trade, prices, money supply, government expenditures, investment, etc. In addition, we publish annually a Balance of Payments Yearbook. The balance of payments of each member of the Fund, and some non-members, appears in this publication in detail and on a basis which permits easy comparison with the balances of payments of other countries. We have now begun to publish the balance of payments of each country as it is ready and to distribute them in loose-leaf form.

Our Annual Report to the Board of Governors is also a public document. This contains a description and analysis of the world payments situation and a review of the Fund's activities during the year. We also publish an Annual Report on Exchange Restrictions which, among other things, includes a detailed account of the exchange restrictions of each of the Fund members maintaining restrictions under the transitional arrangements. From time to time we publish a journal called "Staff Papers" containing research papers of general interest.

I would also like to say a few words about the role the Fund has been playing in the field of technical assistance. From time to time members request that technicians be sent from the Fund to assist them. I expect that these requests for technical assistance will continue to increase in the years ahead as they have been gradually increasing during recent years. In addition to these technical assistance missions, however, the Fund has established a training program in Washington which annually trains about fifteen technicians from the treasuries and central banks of our member countries. Aside from this regular program, individuals and groups have been afforded training opportunities tailored to their particular needs. By all of these measures the Fund is trying gradually to build up a stronger bond of understanding between the Fund and its members and among the members themselves. It is my earnest hope that this bond will continue to grow stronger in the years ahead.

The Bank

When the participants in the Bretton Woods Conference turned to the subject of an international bank, they did so with two problems in mind. One was the pressing need for international capital to finance the restoration of productive facilities destroyed by the Second World War. The other was the resumption of international investment to create new production and raise living standards, especially in the underdeveloped areas of the world.

The requirements, in each case, were recognized as being so large, and the risks at the outset so great, that private capital would be unable to fulfill them without some form of governmental guarantee. In its Articles of Agreement, then, the World Bank was authorized to make or guarantee loans for reconstruction and development, both with its own capital funds and with funds raised by the sale of obligations to investors. And the financial structure of the Bank was so designed that the risks of investment would be shared by all member governments roughly in proportion to their economic strength.

The Bank is an intergovernmental corporation. All of the stock is owned by its member governments. A country cannot be a member of the Bank without being a member of the Fund. At present all 56 members of the Fund are also members of the Bank. The Bank's authorized capital is the equivalent of \$10 billion, of which more than \$9 billion has been subscribed. Only part of this, however, is paid in, and only a part of what is paid in is immediately available for lending.

Each member's total subscription is divided into three parts. First, 2 per cent is payable in gold or United States dollars, and is immediately available for lending. Second, 18 per cent is payable in the member's own currency, and may be lent only with the consent of the member. Third, the remaining 80 per cent is not available for lending at all. It is subject to call only if and when required to meet the obligations of the Bank arising out of borrowings or guarantees.

This capital structure was designed to provide the Bank both with substantial loan resources from its own paid-in capital and with an even more sizeable guaranty fund, consisting of the unpaid 80 per cent portion of all capital subscriptions, which would enable the Bank to mobilize private capital for international investment, either through the sale of Bank obligations to private investors or through Bank guarantees of private international credits. At Bretton Woods the emphasis from the beginning was not so much on what the Bank could lend directly from its own paid-in capital as on the concept of the Bank as providing a "safe bridge" over which private capital could move into the international field. Indeed, it is one of the unique features of the Bank that, although it is an intergovernmental organization, it must rely upon the private investment community for most of its financial resources.

The provision of guarantees to international lenders in itself was not an innovation; several loans to European governments in the early inter-war period, for example, had carried the guarantee of other European governments.

The new feature of the guarantee written into the Bank's charter was the ~~sharing~~ of the risk on an international basis. Each of the Bank's members, whether borrower or lender, is responsible up to the amount of its capital subscription for the Bank's outstanding borrowings and guarantees. The amount of risk thus guaranteed is limited, by the requirement that the total amount of the loans made or guaranteed by the Bank is not to exceed 100 per cent of its total subscribed capital, reserves and surplus.

Method by which it provided for sharing

The founders of the Bank were acutely aware of the need to avoid the errors which had characterized much of the international lending of the past, and particularly during the inter-war period. Capital raised through sales of securities in foreign capital markets had frequently made little or no contribution to the productive capacity of the borrowers. Many of the loans had been made at high interest rates. Often they had been given without careful study of the ability of the borrowers to service new, or even existing, foreign debt. These errors were among the factors that contributed to the widespread defaults of the 1930's.

With a view to avoiding these errors, the Bank's charter contains a number of protective provisions governing loans to be made or guaranteed by the Bank. These loans must be for productive purposes and, except in special circumstances, must be to finance the foreign exchange requirements of specific projects of reconstruction or development. The merits of all projects financed must be carefully studied. Arrangements must be made to assure that the most useful and urgent projects are dealt with first. The borrower may be a member government, a political subdivision or a business, industrial or agricultural enterprise. If the borrower is not the government, the loan must be guaranteed by the member government in whose territories the project is located, or by its central bank or some comparable agency. The Articles of Agreement enjoin the Bank to act "prudently" in making loans, and to pay due regard to the prospect that the borrower will be in a position to meet its obligations under the loan. The Bank is also specifically required to make arrangements to ensure that the proceeds of each loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic considerations.

The Articles of Agreement contain two other provisions governing the character of Bank lending which deserve mention at this point. The first is a prohibition against "tied" loans; that is, the Bank is to impose no conditions requiring the proceeds of its loans to be spent in the territories of any particular member or members. The second is a requirement that the Bank must be satisfied, before making or guaranteeing any loan, that in the prevailing market conditions the borrower would be unable to obtain the loan from private sources under reasonable conditions.

The Course of Bank Lending

Although the Articles of Agreement require the Bank to give "equitable consideration to projects for development and projects for reconstruction alike", it was contemplated at Bretton Woods that the initial emphasis of Bank activity would necessarily have to be on the urgent problems of reconstruction. And in fact, the first four loans of the Bank, made in 1947 and totaling almost \$500 million, were reconstruction loans.

The Bank lent \$250 million in France, \$195 million in the Netherlands, \$40 million in Denmark and \$12 million in Luxembourg. The funds in the first three cases were used to purchase imports for many different sectors of the economy--especially manufacturing, agriculture, transportation and the generation of electric power. The goods purchased were almost exclusively from the United States, and consisted about equally of raw materials (especially petroleum, cotton, coal and lumber) and of finished goods (ranging from factory and farm machinery to railway locomotives, ships and structural steel). The loan to Luxembourg was designed more specifically to restore the production of steel *and to rehabilitate the railroads.*

These loans, by permitting the borrowing countries to sustain for a time the volume of imports necessary both for continued rehabilitation and for the current operation of their productive facilities, helped to prevent a disastrous fall in production and possible economic collapse.

But even when these loans were granted, it was already apparent that the assumptions made at Bretton Woods about the requirements for European recovery had been both too simple and too optimistic. By 1947 it had become clear that the physical devastation, disruption of trade and industrial and governmental dislocations caused by the war were far greater than had been envisaged; and unforeseen political conflicts accentuated the economic difficulties.

The Bank recognized that, important as this financing was to fill urgent immediate needs, the long-term requirements for European recovery were far too large for the Bank to meet with the resources at its command. In fact, the needs were far greater than the amount which the countries of Western Europe could afford to borrow with any reasonable prospect of being able to repay.

The Bank continued operations on the Continent after the Marshall program of economic aid to Europe was adopted in April 1948 by the United States Congress. However, the Bank's lending to Europe was on a restricted scale. In contrast to the 1947 reconstruction loans aggregating about \$500 million, loans to European member countries in the ensuing six years have totaled \$293 million. This figure does not include loans for their dependent overseas territories. A number of these European loans were for projects complementary to undertakings being financed under the European Recovery Program; this was the case with Bank-financed projects in Belgium, Iceland, the Netherlands and Turkey. In Turkey, for example, ERP funds paid for tractors to increase farm production, especially of wheat, for constructing farm-to-market roads; for grain storage installations and for the improvement of Turkish ports.

It was characteristic of most of these later loans to Europe that they were for projects designed to add to, and not merely restore, Europe's productive plant. Examples are the two Turkish loans, made in 1950 and 1953, to provide medium- and long-term credit for industry; the loan made to Belgium in 1951 to help her bear the cost of a 10-year program for developing the Belgian Congo; the loans to Finland, in 1949 and 1952, for the expansion of electric power and of the wood products industries; and the two Italian loans, made in 1951 and 1953, to support a 12-year program for the development of southern Italy and the islands of Sardinia and Sicily.

Development Lending

Beginning in 1948, the emphasis of Bank lending has been on the long-term financing of productive projects in the less developed countries, lying for the most part outside Europe and North America. Here the Bank found itself faced with problems very different from those involved in European reconstruction. The task was not simply to restore missing components to economies which were already mature. The underdeveloped countries needed to build the foundations on which modern economies depend: electric power systems, roads, railroads, ports, irrigation works and the like. At the same time, the underdeveloped countries had relatively few leaders in business or government able to plan investment. They were greatly hampered by a shortage of technicians and administrators able to design and carry out projects; and they had only a limited ability to muster even the modest resources of local capital which were available for the kind of long-term investment on which steady and continuous economic development depends. It was obvious that the Bank would not be able to move as quickly in the field of development financing as it had in the field of reconstruction.

The Bank's first development loans were made to Latin America, commencing in 1948. Total Bank investment in Latin America is now greater than in any other underdeveloped area. Eleven of the Latin American Republics have received loans, aggregating about \$475 million. Brazil, with loans of just over \$175 million, has borrowed more money from the Bank than any other Latin American country.

The Bank's first loan in Asia was made in 1949 (to India). In 1950 came its first loans in the Middle East (to Iraq), to Australia and to Africa (Ethiopia). Asia and the Middle East together have received loans of over \$220 million of which India received nearly half. Countries in Africa have borrowed about \$200 million, more than half of which went to the Union of South Africa. Australia has borrowed \$204 million.

As I have already implied, the post-reconstruction loans of the Bank have been made mainly in the fields of power and transportation--investments designed to have a generally stimulating effect on production of all kinds. Projects for the production of specific end goods are more likely to attract private capital than basic facilities of the type financed by the Bank, which usually require large outlays of capital and provide only modest returns over a protracted period.

To date, the Bank has lent the equivalent of \$506 million to increase supplies of electric power. Apart from the reconstruction credits, this is the largest single category of Bank lending. Some \$374 million has gone into the development of transportation--especially railways, roads and ports. While speaking of transportation, I may also mention \$26 million of lending for tele-communications facilities.

The third major field of Bank financing has been agriculture. Loans of \$163 million have been made for irrigation schemes, for projects to clear and rehabilitate land, and for imports of farm equipment. In mining and industry--mostly in Europe--the Bank has invested \$177 million. And finally, it has made loans of \$110 million for general programs of economic development embracing projects in most or all of these different fields of activity.

Purely as a matter of convenience, I have been speaking in terms of United States dollars when it would have been more precise to speak of equivalents. While dollars have predominated, the Bank actually has lent 14 different currencies. As you know, the Bank's financial resources are international, arising from government subscriptions to its capital and from its sales of securities in the United States and other capital markets.

The amount so far raised in the market, some \$870 million, is nearly equal to the \$885 million that has been available from government subscription. The time is not far distant when capital markets will be a source of funds for the Bank more important than the subscriptions of its members.

Up to now, the Bank has sold 18 issues of its bonds--nine for United States dollars, seven for Swiss francs, one for Canadian dollars and one for sterling. Of the Bank's outstanding bonds, amounting to some \$750 million, \$665 million are dollar bonds; but it is interesting and encouraging to note that an estimated \$165 million of these are held by investors outside the United States. The strengthening of capital markets, which has been almost spectacular in recent months, is a development from which the Bank, as it contemplates further issues, hopes to benefit.

In addition to funds available from the Bank's capital and from sales of Bank bonds, the Bank replenishes its lending resources by sales from its portfolio of borrowers' obligations. These sales are made either with or without the Bank's guarantee. So far over \$90 million has been sold.

Up to now, I have been speaking of the Bank as a financial institution. Let me say that it also conceives of itself as a development agency which must be concerned with other than strictly financial questions. Working in underdeveloped countries, the Bank soon learned that it could help with technical assistance and advice on a broad range of development problems.

Some of these advisory services have been provided in connection with loan operations, including such matters as the determination of priorities among different projects, suggestions with respect to technical plans for projects, and recommendations on administrative arrangements and on means for financing the local costs of projects. But increasingly the Bank has been called upon to help its members in matters not specifically connected with loan projects. The Bank has taken a particular interest in the problem of development programming. In response to requests, teams of experts have been sent to a number of countries to analyze their economies and to make recommendations designed to form the basis of long-term development and investment programs. Up to the present time the Bank has organized this type of general missions to 12 countries in 4 continents. The two latest mission--to Syria and to Malaya--are just completing their work.

Members of the Bank's staff, or consultants retained by the Bank, have also helped a number of countries on other important development problems, such as the establishment of programming and coordinating agencies, the formulation of economic and financial policies, and the organization or expansion of local capital markets. In these activities, the Bank is giving expression to its own belief that a country's management and direction of its own resources is a much more important factor than external financial assistance--and I may say that this is a belief which is shared by the Fund.

Talk delivered by Mr. Ivar Rooth
on April 9, 1956 to Students at
the National Cathedral School,
Washington, D.C.



I want to speak to you about two international organizations in Washington, the International Bank for Reconstruction and Development, called the International Bank or the World Bank; and the International Monetary Fund.

In the summer of 1944 when the war was still raging, representatives of 44 nations met at Bretton Woods, New Hampshire. There were among other countries also Russia, Poland, and Czechoslovakia. Russia never joined the organization. Poland and Czechoslovakia did. At that time they were, however, not Russian satellites. When Poland became a communist country, it left the Bank and the Fund. Czechoslovakia stayed in for a few years but is now no longer a member. All countries in the western hemisphere except Argentina are members. So are most countries in other parts of the world except the communist countries and a few others. Altogether there are at present 58 member countries. A country cannot become a member of the Bank without being a member of the Fund.

The idea at Bretton Woods was to try

- (a) to draw up a program for order and stability in international payments;
- (b) to promote sound expansion of international trade and investment; and
- (c) to help reconstruct countries after the war and help to develop the underdeveloped countries.

This was the beginning of the so-called Bretton Woods organizations. The program was part of a broader structure of which the United Nations should be the most important unit.

The World Bank gives loans only for special purposes such as a water power station, an irrigation project, etc. The Bank can only give loans to a member government or to some one in a member country with the guaranty of that government.

You may ask why was it necessary to have the World Bank when in the United States you have the Export-Import Bank. My answer is, first, that it was very important to have an international organization to do this work and not only a national organization. The Export-Import Bank can only give "tied" loans. That means that the money may only be spent for the promotion of either exports from or imports to the United States. The loans of the World Bank are given not only in dollars but also in other currencies and the money is used in those countries from which the goods for the projects are purchased. This enables the country to buy the goods in the cheapest market.

The Fund, on the other hand, does not lend money for special purposes. A member of the Fund can borrow from the Fund only if there is a temporary lack of foreign exchange. If a country needs, say, dollars or sterling, they can borrow the money from the Fund for a period up to three and with a maximum of five years. The loans of the Bank are, as a rule, for a longer period.

The Fund has at least for the time being, enough money for all its operations. The members have paid much smaller subscriptions to the World Bank. The Bank, therefore, has, in order to be able to lend money to its members, to borrow it by selling bonds on the American and European markets.

The World Bank

As you will see from the official name, the Bank was planned first for reconstruction of the countries after World War II. In 1947, the Bank started giving loans to France, Holland, Denmark, and Luxembourg. Even after the Marshall Plan had been adopted in 1948, the Bank continued to give reconstruction loans in Europe. Among other countries, Belgium, Iceland and Turkey received such loans.

From 1948, the Bank has mainly been giving loans for development in many countries, mainly outside Europe and North America. Forty-eight countries in all parts of the world have arranged loans for developing electric power, railways, ports, roads, irrigation, etc., amounting to about \$2 1/2 billion.

Last year it was decided to create another international organization called "The International Finance Corporation" which would work very closely with the World Bank. Only members of the World Bank could become members of this organization and the Board of the Bank should also be the Board of the new organization. The I.F.C. should give credits for various types of development but should be able to give such loans even without a guaranty of the government. It is expected the I.F.C. will begin its work in the fall of 1956.

The International Monetary Fund

The Fund was planned for a peaceful world. The problems of both the Fund and its members have, of course, become more difficult by the cold war and by the fighting that has taken place in various parts of the world.

The Fund has jurisdiction over certain exchange practices of its members. Each member should have a par value (parity*) approved by the Fund. This parity cannot be changed without the concurrence of the Fund.

A member country that continues exchange restrictions has an obligation to consult at least once each year with the Fund.

The Fund has substantial resources in gold and national currencies to be used for temporary assistance to its members. It has at present funds

*See Annex A

amounting to nearly \$8 billion, \$1.8 billion in gold, \$1.9 billion in U.S. and Canadian dollars, and the rest in other currencies.

The Fund has given loans to 28 members, 9 of them were in Europe, 8 in Latin America, 7 in Asia, 3 in Africa, one in Australia.

The first task of the Fund is to help to restore balance in world payments. This problem can be solved only if the members themselves pursue proper policies. The Fund can only give advice.

Another task of the Fund is to help its members to make their currencies convertible and to keep them convertible. Convertibility* cannot be introduced until there is internal and external stability in the economy. The Fund is willing to lend money to members to help them in these efforts.

The Fund is regularly asked to send technicians to members to give advice on monetary and fiscal policies and on their payments problems. We also publish several books and periodicals. The most important ones are International Financial Statistics and the Balance of Payments Yearbook.

*See Annex A

A. Foreign exchange is the money of any country other than one's own. An American traveling abroad needs, for instance, British pounds or French francs which for him are foreign exchange. For a European traveling in the United States, U.S. dollars are foreign exchange.

B. The rate of exchange is the price that has to be paid for the money of any other country, that is for "foreign exchange." To an American, the rate of exchange for sterling is about \$2.80. That means that he has to pay \$2.80 to buy one pound sterling.

C. Parity is the officially fixed ratio between the currencies of two countries or between one currency and gold. The parity of the U.S. dollar is \$35 per oz. of gold. The parity of the pound sterling is \$2.80 for one pound. If you want to buy say one pound, you will, as a rule, have to pay a little more or a little less than the parity.

D. Convertibility. A currency is said to be convertible when anyone who holds it is able to use it to purchase any other currency that he may desire, without encountering any legal restrictions. For example, any person who holds U.S. dollars can easily use his dollars to purchase the money of any other country. Sweden does not yet have currency convertibility. Therefore, a Swede can buy dollars only if he has a license, or if he needs the dollars for a purpose approved in the general rules laid down by the authorities.

Ivar Rooth.