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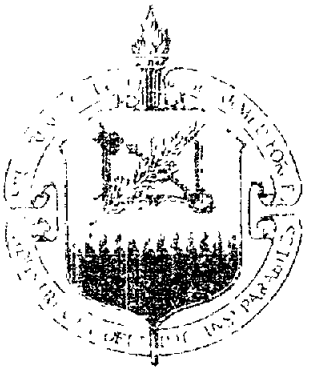

INTERNATIONAL ECONOMIC INSTITUTIONS

Dr. Arthur E. Burns

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

1954 - 1955

INTERNATIONAL ECONOMIC INSTITUTIONS

7 September 1955

CONTENTS

	Page
INTRODUCTION--Dr. A. J. Kress, Member of Faculty...	1
SPEAKER--Dr. Arthur E. Burns, Dean of the School of Government, George Washington University...	2
GENERAL DISCUSSION.....	28

Reporter--Mary A. Kelly

Publication No. L56-14
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DR. KRESS: General Hollis, gentlemen: Our speaker this morning, Dr. Arthur Edward Burns, professor of Economics at George Washington University and dean of its School of Government, is already known to you indirectly, in that he is the chief author of Burns, Neal, and Watson of the textbook, "Modern Economics," which you have been reading right along. He has recently returned from about six months in Europe, and in that way he has been able to keep up with the latest changes in his assigned topic this morning, "International Economic Institutions."

You may remember in Readers' Digest a year or so ago there was a little story about an alumnus who went back to his Alma Mater after ten years and dropped in on his old professor of economics. While rehearsing the old days with him, he said, "You know, Professor, you used to give us some very strange examination questions and we used to worry a great deal about the questions you might ask." The professor said, "It just happens that I have the latest set of examination questions right here if you would like to

look mat them." After lookin the questions over, the alumnus said, "But these are the same questions you asked us ten years ago." The professor replied, "Yes, but we changed the answers."

So this material this morning on International Economic Institutions will be useful to one of the committees on economic stabilization and will be useful to all committees on economic potential in the spring. So if there are any changes in the way things are written up, I am sure Dr. Burns will straighten them out. This is his fourth lecture at the College, his first on this particular topic.

Dr. Burns, it is a pleasure to introduce you to this platform and to the class of 1956.

DR. BURNS: Good morning, gentlemen: I am a little bit out of practice, which, I suppose, is a very damaging admission for any professor to make. I have been away from this business now for about nine months so I am getting back in this morning and you gentlemen are the victims.

The subject "International Economic Institutions" will be defined here this morning as those that have been created since World War II and designed to take care of certain of the problems, the pressing economic problems that have come out of World War II. In short, the topic is confined to the specialized agencies in the field of

international economics since World War II.

There have been many such agencies or institutions created. To list the important ones: the International Monetary Fund, the International Bank for Reconstruction and Development--usually known as the World Bank or the International Bank; the newly created organization, or in the process of being organized, the International Finance Corporation; and then other agencies of a regional nature, such as the Organization for European Economic Cooperation and its subsidiary, the European Payments Union. Then another institution we created, the European Productivity Agency. Then there is the Coal and Steel Community, the Columbo Planning Organization, covering the Far East, and GATT, the General Agreement on Tariffs and Trade, and I suppose other institutions or organizations could be found which were created in recent years to take care of some special problems in international finance, international trade, and international economic development.

Looking over the list, I am sure we would all agree that there has been a fair amount of ingenuity displayed in creating agencies to take care of international problems. But the ingenuity of man doesn't end with the list I have given you here.

The other evening I was talking to an official from Brazil, one

of the important men in their development planning, and he reported this evidence of still further ingenuity.

It happened that the Brazilian Cabinet was meeting to consider again the economic problems facing Brazil. They are serious; they always have been serious; and some authorities think they always will be serious. The question specifically was: What can we do to overcome the present crisis? And the Foreign Minister came up with a very bright idea. He said, "Let us declare war on the United States. Then, of course, we will lose the war and the United States will take care of all of our economic problems with its occupation." That seemed to be a very bright idea until the Minister of War said, "But, gentlemen, suppose we won the war!"

Well, in addition to the international organizations or institutions that have, one way or another, influenced economic activity since the war, we do have, of course, the great United States Government agencies that have contributed to the economic behavior of the post-war period.

The old Export-Import Bank is one such institution of very considerable importance, created back in 1933, mainly to finance trade with newly recognized Russia at that time. So far as I am aware, it didn't finance any trade with Russia, but it has been in

business and flourishing ever since.

Then, of course, there are the agencies, such as ECA, NSA, FOA, all related, of course, and now the latest on the list, the ICA. They have been very important in providing what is called "technical assistance" in this post-war period.

The amount of money provided by the United States through these organizations is quite enormous, something like 50 billion dollars in grants and loans, mostly grants, since the close of the war. These have been in addition to the funds provided by the agencies that I have mentioned already.

In connection with the American participation, as I said, mostly grants and some loans, the Foreign Operations Administration, for example, was required by Congress to make loans for economic assistance. These loans came to be known as FOA loans. I asked one of the top officials of FOA, "Just what is an FOA loan? What does it mean?" His answer, "Fuzzy. Otherwise all right." It is the kind of loan that the regular agencies don't make.

Now the question is: What do these various organizations mainly do? I would like to review very briefly and then get into some of the problems behind the agency or institution, and the condition of their operations.

In the first place, the agencies provide both long term and short term financing. The International Bank makes long-term loans; the International Monetary Fund makes short-term advances.

The second main function is to achieve or bring about a degree of international stability, specifically, the stabilization of foreign exchange rates. This is supposed to be one of the most important functions assigned to the International Monetary Fund.

A third large job at the present time, one way or another, by some or any of these agencies or institutions is to reduce trade restrictions, trade discriminations, to free international trade payments, all for the purpose of promoting multilateral trade.

A fourth general purpose is to provide technical assistance to some of the advanced countries but mainly to the so-called underdeveloped countries of the world, to provide them with the know-how to enable them to grow.

And, finally, another job that might be mentioned, is that these agencies provide a forum for the exchange of views, for the exchange of technical knowledge on the complicated problems of international finance. They do bring about a common understanding of many of the problems of international finance, and in this way, I suppose there is a contribution of considerable importance. These are things mainly that they do do.

Now the question is: Why must they do these things? Why were the agencies called into being to handle these problems? I think a very general answer is that there were problems created by the following:

First, the pre-war depression. It created a good deal of courses, as we all know, in the field of trade and international finance, and partly, the record, the experience with the pre-war depression fashioned the character of at least some of the agencies in the international field.

Another reason, of course, is the disruption caused by war and the dislocations caused by war, and the destruction that war brought with it.

In the third place, the need arose because of the political and economic problems of the post-war period, partly brought about because of East-West political difficulties.

I think the reasons for these or the troubles that brought these organizations into existence must include also the stupidity and political irresponsibility of many governments, especially in the post-war period that aggravated economic problems that were in any case rather serious. The need for these international institutions, one way or another, comes out of the four or five main points I have listed here.

I would like to take these organizations, or the main ones, up one by one now and indicate what they do, what resources they have, and what they have accomplished.

Let us take first the International Monetary Fund, created by the Breton Woods conference in 1944 and set up to do business in 1947. The International Monetary Fund was created because the planners, British and Americans mainly, who went to work during the war to set up the appropriate international economic institutions, believed that the post-war period would be plagued by the kinds of problems that plagued the '30's, and these problems roughly were as follows:

Country after country in the '30's engaged in the depreciation of currency, and competitive depreciation in a sense because any country that would depreciate its currency a little faster or a little more than some other country thought at least that it had an advantage in selling goods in the international market. So there was a great deal of competitive cutting of foreign exchange rates. The International Monetary Fund was set up to prevent this sort of thing in the post-war era.

Another kind of problem in the '30's was the absence of a big pool of financial resources that the various countries could draw

upon to cover them in periods of temporary financial shortages. The International Monetary Fund was so devised as to provide a big fund that countries could draw upon for short periods.

Furthermore, in the '30's there was no way for any country to adjust its foreign exchange rate in a sensible, cooperative manner. It simply cut its rate as it saw fit. The idea was, by setting up the International Monetary Fund, that the fund would have some degree of control over the depreciation or change in the value of money in the international market.

Again, the '30's was a period when all kinds of restrictions of foreign exchange developed. The International Monetary Fund was designed to prevent or to eliminate or reduce those restrictions on international payments. My point is that the Monetary Fund looked at the post-war period in terms of the pre-war problems.

The International Monetary Fund has over 44 or 45 member countries. Each country has a quota representing its share of the capital of the International Monetary Fund. The United States quota, for example, was 2 billion, 700 million dollars. The British quota was 1 billion, 300 million dollars. And on down to very small amounts for the very small and poor countries, altogether a capital of over 8 billion dollars. This was an enormous fund of currencies, dollars on through every other kind of currency in the world.

The idea was that the International Monetary Fund would constitute a reservoir of foreign exchange and that under appropriate circumstances any country in need of foreign money would be able to draw upon the International Monetary Fund for certain amounts for short periods of time.

The Monetary Fund required that all members subscribe a certain amount of gold, either 25 percent of its quota or 10 percent of its total gold stock, whichever was the smaller amount. As a consequence of this, the International Monetary Fund has in its possession about a billion and a half in gold. It is a big financial organization, the equivalent of 8 billion dollars of currency, about one-third of which are dollars and a billion and a half in gold.

The point is that as countries run out of foreign exchange from time to time, as they did back in the '30's, if they ran out of currency to pay their current obligations abroad, they could draw upon the International Monetary Fund for limited amounts for a short period of time and make payment. Well, the record shows that since the establishment of the Fund in 1947 member countries have in fact drawn upon the resources of the Fund to the tune of about 1 billion, 200 million dollars, a billion of that dollars and almost 200 million in pound sterling dollar equivalent, and a few million dollars in

Belgian francs.

The point is that the foreign exchange needs in a post-war period were almost predominantly dollars, and the great amounts of all of the currencies available to the Fund are just sitting there idle. There was not a general shortage of different kinds of exchange. There was a great dollar shortage, and the Fund has provided dollars to many countries amounting to about a billion dollars in the last eight years--a billion dollars in the last eight years when the requirements for those countries ran in terms of tens of billions of dollars.

In addition to providing a source of funds for countries, the International Monetary Fund was also, as I said, supposed to bring about stabilization in foreign exchange rates. It did so roughly in this way

It accepted the foreign exchange rates prevailing right after the war, denominated those rates in terms of gold and established a series of gold pars for all countries. No country was supposed to change its rate beyond 10 percent without collaboration with the Fund and permission from the Fund.

What happened in many cases is that, when countries found themselves really in need of changing the rate, they might have mentioned it to the Fund, but it takes a long time for the Fund to

deliberate and come up with an answer. Time and time again countries simply declared devaluation and asked the Fund to give that devaluation its blessing and the Fund had really no alternative but to accept such devaluation.

The Fund has been very unhappy about the way many countries have gone about changing their foreign exchange rates. The general point is that, while there has been no tendency for competitive depreciation in the post-war period, there has been from time to time a very necessary reduction or devaluation of currencies because most of the currencies in the post-war period were over-valued in terms of the dollar and they had to come down. When they did come down, frequently the International Fund was not consulted or not consulted long enough in advance and the reductions were made without the consent of the Fund.

The International Monetary Fund is also supposed to bring about a reduction in foreign exchange restrictions, the annoying restrictions that have cluttered up the whole field of international finance. It has achieved some reduction in these restrictions. As the international monetary situation has improved, there has been some reduction in restrictions. They might have come in any case. The Fund probably hurried them along and made them a little bit better organized.

Looking at the International Monetary Fund as one of the great international financial institutions of the post-war period, I think it can be said that it represented a very good idea in terms of the '30's. It didn't work out, however, as the authors of the plan had hoped. The problems of the post-war period were somewhat different and infinitely more serious than the problems of the pre-war period. The International Monetary Fund partly missed the main problems of the post-war period.

Now, very close to this Fund is the International Bank, in many respects a far more important organization. Again, the International Bank's organization and powers were framed in terms of the pre-war problems. Again, so far as this bank is concerned, the main problem was this.

The '30's saw a virtual collapse of the international capital market. With the depression there was very little flow of funds from one country to another, which meant that the poor countries were unable to get loans or other investments from the more advanced countries. The more advanced countries themselves were in a serious depression. The virtual collapse of the international capital market was thought, and quite correctly, by the wartime planners to be a problem that would carry on into the post-war period. Therefore,

the answer seemed to be to create a huge international bank with a great capital fund and with power to raise additional funds for the purpose of making long-term loans to countries in need of funds for reconstruction and for economic development.

The International Bank has over 50 country members. It has a capital in excess of 8 billion dollars. Each country has a quota which represents its share of the capital. Each country was obligated to put up 20 percent of its quota right away, partly in gold or dollars, partly in terms of its own currency. The 20 percent was an immediate working fund available to the International Bank for making long-term loans to countries.

The immediate post-war operations of the International Bank involved making sizable loans to France, to Holland, and other European countries to help them rebuild, to reconstruct after the war. Some 500 million dollars or more were lent in the immediate period following the organization of the Bank. Since then, the Bank has continued its lending activities, but almost entirely now to under-developed countries to provide them with long-term funds to build power projects, some basic industries, transportation and communication facilities, irrigation projects, and so on. This is financing the economic development of under-developed countries. The

International Bank has made loans totaling about 1 billion, 700 million dollars since 1947.

The Bank obtains its funds for lending purposes from three sources. In the first place, it has this large capital fund, 20 percent of which is available to the Bank, and it can lend out of that capital fund, and it has made many loans from its capital fund in the course of the years.

A second source of funds is the Bank's issuance of its own bonds in the capital markets of the world and getting money in that way for lending to various countries. The International Bank has sold its own bonds in the amount of about 800 or 900 million dollars, a very, very large financial operation. Most of its bonds are sold in the United States capital market, although it has raised some funds in Canada, in Great Britain, in Switzerland, and perhaps in one or two other countries. But here, you see, by selling its own bonds in the capital markets, it raises money which it then lends to foreign countries.

As a third source, it can guarantee the repayment of a loan made by a private organization. For example, an American bank might make a loan or make a partial loan to a foreign government and the International Bank can guarantee that that loan will be repaid.

That is another way of raising funds to provide long-term financing for countries in need of such financing.

The International Bank in the period during which it has been in operation has made some 75 or 80 loans to about 27 different countries, for a total, as I said of around 1 billion, 600 or 700 million dollars. These loans run for about from 15 to 25 years and carry a rate of interest of from 4 to 5 percent, and they are all amortized loans.

In some cases the loan is made entirely by the International Bank; sometimes, as in the recent loan to Pakistan, the American Bank makes the long-term loan but the International Bank guarantees the loan. As a source of funds, the International Bank has been a fairly important factor. It has been one of the ways in which American private capital, private savings have gone abroad to finance the development of under-developed countries.

However, it is important to keep this general point in mind that American investors in each year of the past seven or eight years have lent more or provided otherwise more capital than the International Bank has throughout its entire life since 1947. This is not under-estimating the importance of the International Bank. It is an important institution, but so far it has been a relatively

small factor in proving long-term financing for the reconstruction and the development of various parts of the world.

Now, you might say, Why is it a relatively small operation so far? There are a few reasons for this. One is that the Bank is a bank. This point has annoyed many people. The Bank is a bank. It is run by bankers, and some very skilful bankers, and no bank, obviously, meets all the needs of the people who come to the bank. That is true of any local bank of any bank, including the International Bank.

The International Bank has found that a lot of applications for loans are very strange applications indeed. A number of years ago, for example, the Ethiopians came in for a 25 million dollar loan to build roads, to build a communications system, and a few other things. The International Bank always gives a pretty close look at any loan application, and it seemed that this particular loan application called for building a new network of roads or highways in Ethiopia and for building a new network of communications.

Well, the International Bank's engineers pointed out to the Ethiopians that the Italian military had left a pretty good road system in Ethiopia, and furthermore they had put in more poles and strung more copper wire per capita than in any country anywhere in the world.

Why not make use of those roads and that wire and those poles? Well, Ethiopia didn't like Italians so they didn't want to make use of the roads or communication facilities. They wanted the International Bank to finance a new system. Needless to say, the Bank did not look favorably on that problem. They did make a very small loan which undertook to reconstruct the Italian military roads and the Italian communication system, and apparently things are all right. But that is the kind of thing that the Bank runs into.

Applications from poor countries are often very badly conceived. It takes time to screen loans, to send delegations into the country to survey the projects, to revise the project, often to throw it out and suggest a better way to use the money. The International Bank requires very good proof that the loans it makes will be serviced and repaid. That often takes a long time to determine. People who are in a hurry to grow and develop want money in a hurry and often they are not very clear about their repayment prospects. The Bank wants to be very clear on that point.

One reason why the International Bank has taken a relatively conservative outlook on loans is this: It is a bank. It has a responsibility for other people's money. Most of it, one-third of it, is

United States money, and the bank wants to be sure that the funds it lends are not wasted.

Furthermore, as I mentioned a moment ago, the International Bank raises a great deal of money in the capital markets of the world, especially in the United States capital market,by selling bonds in that market. These bonds are bought by responsible investors--insurance companies and many other investors--and the Bank wants to be sure that the funds that are raised that way are used productively so that those loans will be repaid in the course of time. If the Bank had a record of making bad loans, do you suppose it could very easily float its bonds in the New York capital market where the investors always take a very hard look at the borrowing organization?

In short, the International Bank is a bank. It never has looked upon itself as something like an international relief or grant organization, which means, of course, that it doesn't make as many loans as perhaps the needs of the world suggest.

Partly because of the inherent limitations of the International Bank's operations, the Bank has made a proposal for still another international institution, the International Finance Corporation, which will be a subsidiary of the International Bank.

Now the International Finance Corporation will have a good deal more latitude than the Bank has, and let me indicate briefly how.

The International Finance Corporation will be able to make loans to private enterprises investing abroad without Government guarantee of the loan. That is not possible under International Bank rules for the Bank to do. Also the International Finance Corporation will be able to invest directly in enterprises in underdeveloped countries, and, as an owner, it will be able to buy stock in a company abroad.

The International Bank can only make loans. The International Bank makes the regular type of loan. The International Finance Corporation will be able to make loans on a participating debenture arrangement, which means that it can make a loan at a given rate of interest and, if the project is very profitable, the project will pay an additional amount and the IFC would participate in the profits.

Now the IFC would have more flexibility to finance private investments in foreign countries. It will be a fairly small organization, just 100 million dollars capital. In the course of time it might grow to be a fairly sizable type of organization.

The point here is that the International Bank financing has gone

mainly into governmental projects abroad. It has provided relatively small amounts to private organizations, private firms abroad. The International Finance Corporation is being proposed as a means of funneling more money into private firms investing abroad.

These are the principal finance institutions that were created in the immediate post-war period. The list I gave you earlier indicates many other types of organization. The regional organizations in Europe, the OEEC and the European Payments Union, are very specialized attempts by the European countries to increase their own trade, the trade among themselves, to reduce restrictions in that trade, and to provide short-term credits to each other to finance that trade.

In recent years, since those specialized regional organizations have been set up, the trade in Europe has increased enormously. The European Payments Union has facilitated that trade. The countries participating have reduced quotas and other restrictions on trade very considerably. So part of the current great prosperity of Europe can be attributed to the international institutions created by the Europeans themselves to reduce restrictions, to provide regional financing, and a greater expansion of trade.

In the Far East, the Colombo Plan, of course, is an attempt

on the part of the Commonwealth countries to provide long-term financing to the poor countries of Southeast Asia to build their basic facilities for economic expansion. This program is highly important because one way or another the United States is about to cooperate on a fairly large scale in the financing of projects in the Colombo Plan countries.

So far as facilitating trade throughout the world, there has been created rather informally an organization known as the GATT, the General Agreement on Tariffs and Trade. About 34, 35, 36 countries are members or have signed agreements. The agreement provides for tariff reductions and the easing of other kinds of restrictions on international trade. The authority behind the United States participation is the Reciprocal Trade Act, originally of 1934.

Because of the rather informal character of the GATT, it has been proposed that a new organization for trade cooperation be established, and the proposal has been made to Congress to join such an organization.

In the fields, then, of international finance and international trade there have been a number of these big organizations created, some on a regional basis, some on a fully international basis, to provide financing, to eliminate trade restrictions, to reduce tariffs,

and to bring about the encouragement of economic expansion throughout various parts of the world. These organizations are all post-war. When we look at the functions and the record of all of these organizations, I think the general conclusion that suggests itself is that they have provided the basic answers to the post-war economic problems.

I mentioned a while ago that the United States Government, since the war, has provided economic aid and more recently military aid in the amount of about 50 billion dollars, mostly as grants, partly as the FOA type loan.

Incidentally, there has been a great deal of joking around Washington on these FOA loans, so-called. They are loans that no respectable banker would make. I am sure the International Bank or the International Monetary Fund wouldn't make such loans. They are not grants. They are obligations on the part of the borrowing country to pay back sometime in the future, and if the agreement says the loan is to be paid back in local currency, it will be paid back in local currency. All of you have had experience with local currencies throughout the world. You might feel that this is not a prudent provision for the United States to make. These are to be paid back in local currencies to be used in the future in such

ways as Congress may see fit.

One amusing incident developed very recently. A small country in the Middle East borrowed money on that kind of an arrangement and only recently has asked if it would be possible for its notes to be sold to a private group. The loan appears to be quite a good loan and it might be that many of these loans which, a year or two ago, or even now look pretty shaky, might in the course of time look pretty good. At least the first evidence has now turned up.

Well, the big problem in the post-war period, it turned out, was that the countries damaged and disrupted by war and other parts of the world hoping to expand economically found themselves in need of enormous amounts of capital equipment, raw materials and consumer goods right after the war. Those needs were not matched by a corresponding financial ability to satisfy those needs. They simply didn't have the money to buy as much as they wanted.

How could they get the money? One of the basic ways any country has of getting money from another country is to produce and ship goods to that other country. Obviously, the European countries in the immediate post-war period didn't have the productive capacity to produce enough to sell to the United States, the principal supplier,

enough goods to get enough dollars to buy the capital equipment, the raw materials, and the consumer goods they wanted. In short, there was a tremendous dollar shortage that was partly artificially created because of the exchange rate problems, but basically it goes back to the difficulties that the world faced.

They needed and wanted great quantities of the things the United States at that time could supply and only the United States could supply. They didn't have the capacity abroad to produce and sell to us enough to get those things. And, even if they had, the United States perhaps would not have wanted enough foreign goods to pay over the dollars in large enough amount for the foreigners to buy what they wanted from us. There was a basic disequilibrium between the rest of the world and the United States.

Now this great gap between the requirements abroad and the capacity of countries abroad to earn enough to meet those requirements could have been filled by the International Monetary Fund. It could have been filled by the International Bank or most any subsidiary of the International Bank. It couldn't be filled by any of the other international organizations. It had to be filled and was filled by these enormous grants provided by the United States to Europe and other parts of the world.

Even today substantials amounts are going abroad, last year about 4 billion dollars. It will almost be 4 billion again this year, a good part, of course, for military aid purposes.

Even though Europe has recovered to a very large extent, it has in fact a very great proportion to be done. It has to build up its gold and dollar reserves to a considerable extent--to the tune of 2 billion dollars just last year. Yet the United States has, through its aid programs, contributed to that expansion and to that accumulation of gold and reserves by spending very substantial amounts, far more than all of the international institutions put together have spent over the past eight years.

Now the general point in looking at international institutions is, I think, this: that no matter how carefully they were devised--and they were--they were created for a problem quite different from the problem that faced the world after World War II. They couldn't obviously meet the problem because they weren't created to handle it. The United States itself had to step in and provide these very great amounts of money. In all probability the United States spent more than it really needed to to do the job. I think that is a characteristic of the United States in almost anything that it does. But 10 billion more or less perhaps doesn't really make a great deal of difference in a matter

such as this. The institutions weren't up to the job they faced.

The question now is: If they weren't, are they ever likely to be. What is the point to these very sizable international bureaucracies if they are not going to meet the job that faced the world over the past ten years?

Perhaps the answer is this--I don't know, but perhaps it is this: It might be that if there is a fair degree of international political tranquility in the years ahead, it might be that the big financial and economic problems of the past ten years will partly fade away, that there might be then an international economic situation that the planners had in mind 11 or 12 years ago when they created the International Monetary Fund, the International Bank, and thought up a few other international institutions as well.

If there is a period of international political tranquility, there might then be a period of international economic prosperity and some stability, in which case the International Monetary Fund, with its provision for short-term financing for relatively minor crises, might work very well and perform an important function.

The International Bank might be able to perform a very important function by lending 4 or 5 or 600 million dollars for economic development and do very well. It might, together with private financing, meet fairly

adequately the long-term capital needs of the world.

The International Finance Corporation might help encourage private financing and take care of a good part of the problem that way.

We can imagine certainly an international economic situation where these international economic institutions would play an important part. It might be phrased--and I will conclude with this point--this way: These international organizations might become highly important in an international setting of political tranquility when nothing of importance is really happening.

MR. NIKLASON: Dr. Burns is ready for your questions.

QUESTION: What are the nationalities of the international bankers and the governors of the International Fund, and how do their national objectives, national feelings affect the decision that they might make about a loan that some country that may be their enemy has asked for? I mean is there much of that in the councils of these Funds?

DR. BURNS: In the first place, the executive directors come from all of the important countries and it is a very international assemblage when the directors get together, and the directors are the ones who consider loan applications.

Now suppose that India comes to the International Monetary Fund to ask for an extension of credit, and let us suppose that the Pakistanian executive director, along with his colleagues, must consider India's loan application. Your question really is, would the animosity between India and Pakistan influence the Pakistanian's judgment of India's application? I would say, generally no, because the Board of Directors in a sense constitute an international club. They all personally are on very good terms. Even in the case of the Indians and the Paks now, the tendency has been for persons in positions of responsibility, such as that, to consider loan applications on their merits and not in terms of rivalries between two countries.

Even in a case where you might expect the poor countries to hang together and support each other in their loan applications, there are cases where even the poor country or a number of poor countries, if they feel that one of their colleagues from a poor country is presenting a rather specious proposal, will look upon it as such and turn him down.

COLONEL WALSH: How about across the Iron Curtain or the Bamboo Curtain?

DR. BURNS: No, the Red Chinese aren't in and the satellites aren't in. Czechoslovakia was dropped from the Fund just within the past six months or so for its failure to pay a subscription that was due.

So that problem doesn't arise because they are not part of the group.

QUESTION: If the Board of Directors of the Fund are similar or the same people, maybe, as the Board of Directors of the Bank, it appears like the United States Fund is giving United States dollars away in proportion to its nationalized currency--

DR. BURNS: It is not giving away.

QUESTION: It is a matter of semantics. In terms of the International Bank, they are probably all bankers by profession in the first place, and if you have a banker's attitude of being very cagey about whether he can give away money or loan it maybe just like a regular national bank. The big demand on the International Fund has been on American dollars. There is a chance there of other members outside of the United States and Canadian members to gang up just to get all these dollars.

DR. BURNS: It hasn't worked out that way. In the first place, the directors are different people. They are different institutions, although they work very closely together and they are housed in the same building.

The International Monetary Fund's advances, to be sure, have been overwhelmingly dollar advances. Of the billion, two, total advances or purchases of funds by members, one billion approximately

has been United States dollars and only pound sterling and, I think, Belgian francs have been purchased by other countries in rather small amounts. These are loans. No one is giving that money away. In fact, 700 million of the billion, two, have been repaid, leaving a net balance owed to the fund by members of 500 million, on which they pay interest.

Now the International Bank loans have been also predominantly dollar loans. Probably 85 or 90 percent of the billion, 700 million of loans have been dollars.

Now the Bank is increasingly trying to lend sterling, Swiss francs, Canadian dollars, and other stronger currencies, and I think as time goes on the International Bank loans will be more and more made in non-dollar currencies, because, after all, the British, and the Germans, and the Dutch, and the French, and the Swiss are now in a very good position to provide the engineering services, the capital equipment, and all needed for a great many projects, and frequently at a lower price than the American supplier would ask. So in the course of time, International Bank loans will tend to be more and more non-dollar loans. But so far, they have been, as I say, 85 percent dollar loans. There is no particular evidence in the Bank or in the Fund that the directors feel that "These are dollars. They

are not our funds. Let us play easy with those dollars." It hasn't been the case.

QUESTION: Before I ask my question, I might say that there is a widely held impression by other governments that, if we could only get the United States to instruct its representative on either the Board of Directors of the Bank or the Fund, a loan would go through much more easily. So far as I know, we have actually resisted that in all cases, but we do get a lot of pressure from all countries to try to use our influence on those two institutions.

My question is with regard to the quality of international credit, would you think it would be something like Gresham's law in international law to insure that nations wouldn't take any steps to attract private institutions which make sound loans so long as easier credit is provided. I notice a tendency on the part of other countries to come to the Export-Import Bank.

DR. BURNS: I think very clearly danger does exist. The International Bank is under mandate to not grant a loan if there is a reasonable alternative available. Well, it is difficult to define "a reasonable alternative." I agree and I am sure the Bank would agree on that point.

But when, for example, a country can get a long-term loan

at 4 percent, plus the 1 percent commission reserve, the net loan at 5 percent, that would be less than it would cost to borrow the money privately. It might be easier to negotiate such a loan. It might get a larger loan than it would get from a private source. There would be a tendency for them to look upon the International Bank rather than the international capital market. The Bank simply has to be alert to that problem, and it is partly alert to it.

What it does increasingly now is to get private banks to participate in the loans that it is making. I noticed some loans that went through just within the past six months had as a participant with the International Bank the Bank of America, which is rather prominent in international lending, taking a good portion of the notes.

Now it is a matter for the international institutions to be very careful that they in fact are not displacing the regular sources of international credit. They probably haven't succeeded fully.

QUESTION: What is the line of reasoning which permits the establishing of the International Finance Corporation with less restriction than the International Bank?

DR. BURNS. Well, the International Bank under its charter,

when it makes a loan to a private organization or private firm abroad, must get the guarantee of the government abroad supporting that loan. It can't make a loan direct. Now it has been very difficult for private firms abroad to get their governments to give that guarantee to the International Bank, partly because the government doesn't like to guarantee money it isn't using itself, and partly because the governments would prefer to borrow the money themselves rather than have one of their private firms borrowing, because often the governments abroad are a little bit suspicious or hostile toward their own private enterprises.

Given that requirement for a government guarantee abroad, the International Bank has found it very difficult to make as many loans to private enterprise as they wanted to.

Now the alternatives are: (1) to amend the bank's charter; (2) to create another financial institution that would be able to make loans without a government guarantee; and (3) to be able to provide funds on an equity basis, which the bank cannot do.

The International Bank, I might say, was not particularly keen about setting up the IFC. Under instruction, they did draw up the outline of the IFC. The IFC was not pushed by the International Bank until just within the past six or seven months, and the IFC is

considered now to be a limited subsidiary of the International Bank that can do things that the International Bank neither can do nor really wants to do. But I suspect the Bank has supported this subsidiary because if it did not, there might be great enough pressure to cause the Bank to change its own lending procedures.

QUESTION: I gather from your remarks that experiences during the depression had some effect on the formation of these International Banks, the International Monetary Fund and the International Bank?

DR. BURNS: That's right.

QUESTION: I would like your views on the potential value of these banks come another depression?

DR. BURNS: Another depression like the '30's?

QUESTION: Yes.

DR. BURNS: I would say that is a matter of speculation because I don't expect any such kind of depression, but just to speculate, suppose we did have one. I would say that the probability is that neither the International Monetary Fund as now constituted nor the International Bank would really be important factors in mitigating the effects of the depression because, for one thing, if there should be one as serious as the '30's, financial needs would be tremendous, more than the International Monetary Fund could meet. Because no country can

borrow much from the Fund--it is limited by its gold subscription plus its quota and that is pretty small--the countries that would need it most have the least drawing rights on the International Monetary Fund. The country that has the greatest drawing rights on the International Monetary Fund is the United States, and we have no prospects of being desperately in need of Italian lira or pound sterling or Belgian francs to pay our obligations. We have the greatest drawing rights and the least need. The people with the least drawing rights will have the most need. The IMF would not play a very important part in mitigating the effects of a depression.

Now if they would rather drastically change the lending powers of the Fund, that would be a different story. If the depression dried up the flow of private capital from the United States, which is running around 800 million dollars to a billion dollars--that is actual dollars, not reinvested earnings--if a depression dried that up, the International Bank would have a hard time making up that deficit. In short, even though those organizations were created with the '30's as a background, if something as serious as the '30's should come again, they wouldn't be able to handle the problem in my estimation.

QUESTION: You mentioned the failure of the Monetary Fund to exert any controlling influence on the devaluation of currencies. This

seems to me to be a serious problem that is still with us today. What is the possibility of setting up some better international control of the currency exchange rates for the future?

DR. BURNS: It is pretty hard to prevent any sovereign nation from devaluating its currency if it wants to, and possibly it might not be advisable to set up an organization with sufficient power to prevent it because we might need to devalue some day. It is not beyond the realm of possibility. And I might say, in some cases the devaluation that occurred, I think most people would say, was a necessary devaluation which the Fund was a little bit too slow to see. It is a rather cumbersome kind of organization to get people together, to agree, to get the wheels in motion. Meanwhile the country might be losing its reserves at a terrifying rate so far as that country is concerned. So it has to devalue the day after tomorrow. It can't wait for the Fund to deliberate.

QUESTION: I wonder if we can question the value of these international institutions per se. I assume that most foreign nations, especially the poorer ones are not complete economic entities as, say, the United States. Would you care to discuss the value of economic union, say, between individual countries as a technique for strangling

themselves as an economic unit?

DR. BURNS: Something like what is going on now in Europe, for example, through the OEEC, the EPU, and the European Monetary Fund that probably will be the successor to EPU.

QUESTION: Or perhaps maybe such units as the Austria Hungary Empire.

DR. BURNS: Would such organizations decrease the need for these international institutions?

QUESTION: Yes, sir, that's it.

DR. BURNS: I really don't know. They might, to a certain extent, decrease the need, but it seems to me that basically, let us say, a unit such as Western Europe, if it brought about some kind of an effective economic union, might in that way ease the problem so far as intra-European payments and the like are concerned, but that in itself would not ease the financial strains that might arise between that entity and the rest of the world. So that union itself wouldn't take care of a problem that extends really beyond the countries so integrated. I should say in short that the argument for integration or union of certain countries should proceed on its own merits rather than on the ground that it will lessen the need for the international finance institutions. That is not a very good answer but it is a very difficult question.

MR. NIKLASON: Thank you, Dr. Burns, for a very clear and interesting description of the international financial organizations.