

INTERNATIONAL ECONOMIC STABILIZATION PROBLEMS

Mr. Per Jacobsson

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INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.

1959-1960

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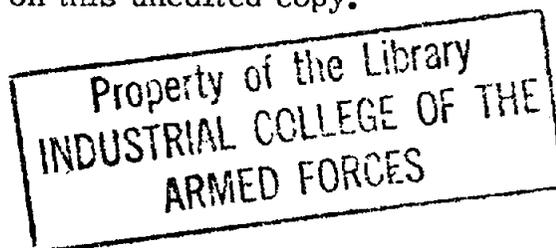
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GENERAL MUNDY: You have heard several times throughout the academic year from other speakers that Mr. Per Jacobsson would be a speaker in the Economic Stabilization Unit. I don't believe that there is anything that I can add in the way of an introduction that you don't know. I might point out that he has been involved in financial policy matters with nine different nations, and these do not include Austria. He served Austria on two occasions, the first after World War I and the second time after World War II.

To those of you who are sportsminded, I might mention that his son-in-law is Roger Bannister, the young man who ran a mile in four minutes.

Mr. Jacobsson is now the Managing Director of the International Monetary Fund, and this fund has financial dealings with about 68 countries.

I don't know anyone who can tell us more about our subject today, "International Economic Stabilization Problems."

Mr. Jacobsson, we have been looking forward to your talk for a long time, and it is indeed an honor to have you give it to us today, sir.

MR. JACOBSSON: General Mundy, Gentlemen: I am very glad to be here again. It is two years ago that I had the pleasure and honor to

come here, and I found the question period and the talk at the lunch more interesting than the speech. I have been three years at my work in the International Monetary Fund. As I look back at that period, it has been a period of tremendous change. Three years ago we were in the midst of the Suez crisis, and, as you know, this crisis affected the monetary situation. There was a demand for sterling in London from our Fund, and in the following period there was great tension in the exchange markets in Europe. It was, however, possible to overcome those difficulties. It was possible by the steps taken in the individual countries, which in some respects went very far.

You remember that the British put up the bank rate to 7 percent, made cuts in the budget, and slowed down investments at home, in order to set free resources for a surplus in the balance of payments. But they also got help from outside, within 10 days, at the beginning of December--a critical advance in answer to the demand from the International Monetary Fund, in the amount of \$1,300 million. At the same time, the British government obtained from the Export-Import Bank \$500 million. Of these amounts, one-half was drawn of the amount from the Export-Import Bank, and from the Fund \$561 million. The remainder rested as a line of credit.

Through these steps it was possible to find the means to hold sterling without any devaluation and without any imposition of quantitative restriction.

In the following period of excessive tension, Belgium drew \$50 million from the Fund. The Netherlands drew \$69 million, with a line of credit of additional \$69 million, and Denmark drew \$34 million.

In all these cases the Fund had to make agreements with these countries, and methods were agreed upon that the countries themselves took to put their houses in order. So that the sources obtained from the Fund were used to gain the time during which their own measures took effect.

Tension perhaps came to a height in September 1957. It was then that the British raised the bank rate to 7 percent, and at that time declarations were made at the annual meeting of the International Monetary Fund and the Bank, and through these declarations the Fund would be handed and other countries would support this policy. One can say that within a week the exchange markets started. It suddenly became clear that there was international support for a continuation of the present exchange structure.

I think this was a demonstration of what the existence of international organizations can mean. It was also a very good lesson for the country, if I may say so, even for the Foreign Office in England, because the Foreign Office had been used to carry on its policy and political action without having to consider the value of the pound. They never thought when they went into Suez that that would have an effect on the

monetary situation, but they got the lesson, and I think it was a useful lesson. It is very important for the foreign offices in all countries to realize that in the future the political and the monetary consideration must weigh more than they did in the past.

After all, the sterling had been strong for nearly 200 years. It never needed to bother them, and now suddenly they realized that they lived in another world.

In the following period we had in Europe several stabilization schemes that the International Monetary Fund worked out, mainly with the OEEC, the Organization for European Economic Cooperation. The first one was with France, in January 1958, when France received credits of a total of \$655 million, and steps were taken in France to reduce the deficit in the budget, to restrain credit given from the Bank of France, and to take a number of other measures relating to financing of house construction, et cetera.

These steps were effective almost from the beginning, but you will remember that in the middle of that year in May came the difficulties that led to the DeGaulle government. Mr. DeGaulle, himself, when he came into power, realized the importance of monetary stability. I had occasion to see him several times, and he knew fully well that the country could not regain its esteem in the world if it didn't have a good currency. He gave full support in the following period to the people in

the Ministry of Finance and in the Bank of France who wanted to re-establish the financial position of France. The success has been remarkable. Personally, I always believed that France was a strong country and that those certain measures on the budget and on the Bank of France were needed to make that clear.

Last year, in 1959, France had a surplus in its balance of payments of probably over a billion dollars and added to its monetary reserves through capital inflow and other ways a figure higher than that. So that the French reserves now are something like \$1,700 million, and the French franc has been able to stand without friction in all these difficulties in Algeria. That, after all, has been a surprise--that the change could come so quickly. Again we have a country which, at least from a financial point of view, has reestablished its position, and also from an economic point of view, because the money invested in industrial development in France has been very impressive, and, as you know, the country exported, I think, 500,000 motor cars last year, which is a very high figure.

The following summer there was a similar plan for Turkey. Turkey obtained from various sources \$359 million. The Fund participated through OEEC and the United States Government. In the valuation of the Turkish currency there is an improvement. There is in fact a balance in the economy and there is more confidence in the currency. But I think it is important for the Prime Minister to begin

to realize that support of the stabilization plan is good politics, because people, after all, like to have a good currency.

Then, in the summer of last year, the Fund, together with OEEC and the United States Government, participated in the preparation and the implementation of a stabilization program for Spain. Spain obtained a total of \$325 million. That was a clean break with the previous Spanish policy. They had a multiplicity of black rates in the market, and a variety. They had a great deal of import restrictions. Almost any import had to be licensed. Spain became a member of OEEC and there was a liberalization of trade at the same time. It was difficult to tell what would happen. There were certain chances that it would go well, because in Spain, one important thing is that the new young ministers, at the age of about 45, whom Mr. Franco has appointed, represent a new generation in Spain, and the younger people, at about age 40 to 45, who are experts in the Ministry of Finance and in the Bank of Spain, are able people, and Mr. Franco has let these people take over and carry out a new policy that started a few years ago but has now come to a head.

From a financial point of view, the Spanish stabilization plan has been perhaps the greatest success I have ever seen. Since the end of July of last year until today, the Spanish authorities have added \$130 million to their reserves out of their own earnings, without counting the credits they obtained. So the thing has been carried through almost

without any utilization of the credits that were granted.

Naturally, in such a situation success helps to give support to the plan. It is interesting to hear from the plans we have with the Spanish government that the Minister of Foreign Affairs became a strong supporter for the Cabinet in other measures, because he suddenly found that it changed Spain's international position when it took these international monetary steps. I believe he was convinced that without this program there would be no chance of a visit from President Eisenhower to Madrid, as there was last December.

Now I would like to mention certain characteristics of the stabilization plans. A very detailed program is worked out which has to go into the internal measures of the country. The budget and the credit policy very often have to deal with wage policy and investment policy. This program is usually laid down in a letter written to the Fund, to me as the Managing Director, and then also the main points are embodied in standby agreements with the country concerned.

We have certain principles and practices under which the use of the Fund resources is available, and the credits are granted according to them. In the implication of them we are able to introduce a certain amount of discipline in these countries. People don't so much as they did believe in the old gold standard, but some discipline is necessary, and I think the work of the Fund is, so to say, a substitute for the old adherence and allegiance to the gold standard rules.

You would think that this is difficult, and it sometimes is, to deal with the internal measures of a government, but it is less difficult than it was in the past. One thing I always do when such a problem is raised is, I turn to the representatives who come to the Fund, and say, "Do you think that these measures are useful from the point of view of your country?" They say, "Yes." I say, "Is there any measure that you don't think is useful?" They say, "I think they are all useful." I say, "Don't come then and say, 'These are the conditions of the Fund.' These are measures which you have to take in your own interest, and you know it very well, and it is you who have the responsibility of carrying it out." Therefore, all these programs are always presented as the programs of the governments, and we in the Fund make as little publicity as possible about them. So the Spanish government and the French government, when they take the hard measures and have to carry the burden of these measures, also should get whatever credit there is for the success when it comes.

The second thing I would like to say is, when you have had inflation in a country and want to stop that inflation, it takes a certain time before business gets going again, because there are many business firms that have become so used to inflation in all their practices and habits that, when prices begin to be stable, they hardly know how to deal with the situation, and some of them will then get bankrupt and some of them will live with it. Therefore, you have pains of

adjustment and a transitional period before things really get going again.

We had that in Finland and in England, and we have it everywhere. Last summer when I saw General Franco I told him that this period would come, that it would increase his reserves but that internally there would be a certain period of slackness. I asked him if he could take it coolly. He looked at me and said, "You needn't worry. I have to take so many things coolly in my life that I think I can take this, too." But it is better to warn them in advance that in the transition they necessarily have to have a certain slowing down before people get used to this and learn to live without inflation.

The third point I would like to say is that, even so, it is usually politically not dangerous to take these measures. The fact that the Macmillan government had a large bank rate raise to 7 percent did not prevent Macmillan from gaining the election. We have found in one country after another that, even the governments that take strick measures, when the people feel that the inflation is over, find that the people will trust them. I always try to tell the politicians and the members of governments who come that it is less dangerous than they think. I think people are tired of inflation, and, if you can hold out to them that inflation is over, they are willing to take and swallow those measures which are necessary to bring about desirable results.

You may ask me: How does the United States Government or other governments which are members of the Fund, look at this work? I think it is possible to say that they are very much in favor of it for one reason, and that is that, when they, themselves, deal with direct assistance to a country, they find it impossible to go into the internal affairs of that country and deal with budget problems, credit policy, and wage policy. That would be interference in the internal affairs of a friendly government. It would be called dollar diplomacy, and it would not be palatable.

The same applies in London. I had occasion to talk last year to at least one of the leading men in the British authorities, and he said that, even among the Colombo Plan countries--India, Ceylon, and so on--the British find it impossible to do anything about the internal affairs of these various countries. It would be regarded as very wrong, indeed. So they, too, say that whatever intervention of that kind is needed has to be made by an international organization for the monetary side of the fund. When it comes to long-term investments, it is, of course, the role of the World Bank. The reason is that these countries can accept an international official and allow him to look into the internal affairs when they would not accept the official from any particular country. I might even say that it doesn't matter at all who it is. An American official, when he comes as an official of the Fund, I have found, never has any difficulty. He will then be accepted as a Fund official instead of as a representative of the United States.

It means, of course, also, that in the Fund all the governments are represented. The Board of the Fund consists of representatives, or you can say citizens, of 18 different countries. When things are brought to that Board, they all report at home to their governments. So, in fact, four African nations, like the American Government, through the Fund have obtained information and knowledge about the stabilization measures in Europe and elsewhere in a way that they could not obtain in any other manner. It is not found in the newspapers to the extent that it is found in our official documents that are, of course, communicated to all the members of the Board, and by them are sent around to the various governments.

One outward and visible sign of the feeling about the usefulness of the Fund was the increase in the resources of the Fund last year and of the World Bank at the same time. The increase in the Fund resources comes to about \$5 billion, which is a fair amount. About a quarter of a billion was paid in gold. This increase had to be voted by parliaments all around the world. We were very anxious, of course, to know what the debates would be like. We found there was hardly any division. It went through much easier than one could have expected. It was generally voted by both leftish and rightish parties. I think this is interesting, because, when these institutions were set up in 1945-46, there was a great deal of discussion. The second time there was hardly any discussion at all, and, if I may say so, the

U. S. Chamber of Commerce testified against these institutions in 1945 and testified in favor of the increase last year.

Now, I have dealt with the industrialized countries in Europe. Europe has, of course, had economically a very great progress. Production is at least 50 to 60 percent higher than it was before the war. And I think that in the British government Macmillan won the election with the slogan, "You Never Had It Better, "and I think it applies to the whole of Western Europe today.

When we come to other countries of the world, the nonindustrialized, underdeveloped countries, the raw-material-producing countries, or whatever you call them, our work in the Fund has been more with them. It has not been with so large amounts as in relation to Europe, but, in Latin America, for instance, we have had relations with all except two or three of the countries, in South America, and in Latin America. A few in the North have managed wholly on their own efforts.

In Asia we have granted credits to Japan, to India, to Pakistan, to Indonesia, and to Australia. So these countries, too, have been working with the Fund. The Fund starts with the monetary stability. There are therefore short-term credits that the Fund gives, repayable between three to five years. The resources obtained from the Fund cannot therefore be used for investment purposes. For that you need long-term funds. That is the task of the World Bank. So many of these countries, India especially, want long-term resources, long-term

loans for investment. Therefore it is often the World Bank that is more concerned with them. They have, of course, monetary difficulties, changes, and strains. Foreign funds do not come in as quickly as they expect them, and they have to come to the Fund.

In Latin America we have had stabilization plans with Argentina, Chile, Peru, Bolivia, and Paraguay. We have given credits to Mexico several times. There are only three countries that we have not dealt with through credits. Ecuador is managing very well itself. Uruguay has a new government and a very curious system of multiple exchange rates which it does not know how to get out of. They put forward a new bill to the Parliament, but it seems to take a long-time. Then there is a different problem in Brazil, where the President is more interested in developing a new capital in Brasilia than he is in monetary stability.

One can never work with the country if the government, itself, is not intent upon stabilization of the currency and gives that high priority. If they want to put other things first, it is impossible for the Fund to impose conditions. Brazil is a rich country. It earns foreign exchange, perhaps \$1,200 million a year. Technically it would probably not be very difficult to put that currency in order, but it cannot be done without the will of the government.

Now, if you look around the world, you find in Europe practically monetary stability restored everywhere. In Asia, India, Pakistan, Japan, Australia, Malay, and most of the countries are stable in their money. In Latin America more and more countries have effective

stabilization schemes. I don't say that they are all definitely successful yet. There are exceptions--Brazil and Uruguay, which I mentioned. The others are making valiant efforts. There are still difficulties in Indonesia and some in the Phillippines, but there, too, there is great stability, internally, over the last year and one-half.

When people ask me about it I say that it is like learning to play golf. At the beginning you are very happy if you make a few good strokes and remember them. So three or four years ago you were very happy about the few countries that had good money. Then you get much better in golf, you get very good, but you remember that there are a few bad strokes which anger you very much. We have almost gone so far with the monetary stability in countries that we are now more worried about the few countries that remain as not having come up to the standard, acknowledging that most of the countries have made over recent years a valiant effort.

I may perhaps say a few words about how all this has affected the United States. In some ways it has been a great advantage, and in other ways it has raised new problems for this country. It has, of course, been a great advantage that, from a political point of view, the European countries are monetarily in good order. I had occasion to see in November, within a week, both Mr. DeGaulle and Mr. Adenauer, and lots of people in France, Germany, and England. I said to them that, if there are discussions with Russia coming, at least Western

Europe enters those without any monetary crisis. Three years ago it would have been quite a different picture. There is in Europe good money and good trade. That makes perhaps sometimes people more quarrelsome and there are difficulties, but anyhow it is a better basis than going to discussions on wavering monies and poor trade.

Politically, therefore, it is an advantage. From the point of view of repayments to the United States it is also an advantage. The credits that were given to England, France, Holland, and Belgium to aid these countries were, of course, given in dollars. What they needed at that time was dollars. These have been repaid. Netherlands, Denmark, Belgium, and Japan have repaid everything that was given in these years. From the United Kingdom we have obtained \$1,300 million, and \$500 million for the Export-Import Bank. That's \$1,800 million. All that remains unpaid is \$300 million. The Export-Import Bank has been paid in full, and the Fund has got back more than one-third, but actually it was paid out in dollars. France has repaid nearly one-half, \$200 million, to the Fund, last autumn. For the remaining amounts we have agreements on monthly repayments, so that all that was given to Europe will be finished within a year, or certainly within two years.

I often tell people that the most effective money that is handed out is probably through the International Monetary Fund, because one obtains stabilization programs with measures in the internal countries, and one gets the money back within three to five years. That has been

the experience. I see no other agency that has the same effects or gets its money back so quickly.

Of Course it is also important from the point of view of the trade of the Western World that Europe is in a good situation. From the raw-material-producing countries Europe buys about twice as much as the United States in its imports of raw materials and foodstuffs. So the market of Europe is of course of great importance for the prices of raw materials and for the trade possibilities.

Then Europe ought to be able to take part more effectively in the aid given to the underdeveloped countries. It is a problem, as you know, which is very much discussed at present.

Now, these things are pretty clear. I need not dwell on them longer. But there is one fresh problem which this stabilization has raised for the United States. The position was this: that the United States economy used for years to be the only economy that could promptly deliver goods that were needed. It was a seller's market, and therefore price did not matter so much. The United States was sure to be able to export whatever goods it offered. From 1951 onward to two years back, at least, these conditions have changed. Europe is now in a position to deliver as promptly and effectively as the United States. That means, of course, that price differences begin to count more than they did before. Wages in Europe are half of what they are here in money values in the United States. There is great effectiveness in agriculture and in industry, but, of course, even for the United States,

the advantages of a large market of highly developed, technically developed, production is to some extent disappearing, because Europeans have put up new factories, and, through the rising standard of living and other ways, the markets in Europe are widening and they have the same advantage in exports of the world markets as does this country. Therefore, some of the advantages that the United States had in its exports in the earlier years have really disappeared.

Then came another circumstance in 1958, which played a role in this connection. There was a recession here. One way of getting out of a recession is, of course, easier credit and more demand from the Government. There was that year a deficit in the budget of over \$12 billion, and there was a credit expansion sustained by the Federal Reserve Banks to the extent of at least \$12 billion. Now, if there is such a credit expansion, new money put out by the central bank, in a smaller country, one can take for granted that the credit expansion, together with the deficit in the budget, immediately affects the balance of payments. The Governor of the Bank of Mexico said to me, "If I expand credit, I must realize that almost all effect goes abroad and that I lose so much of my monetary reserves. Therefore, I have to be very careful." Even in a large country like the United States a considerable part of the credit expansion is absorbed internally, but one cannot expect it all to be absorbed. And when this credit expansion came together with the change in the economic situation, in the

export-import relations, it certainly affected the balance of payment and led to the outflow of gold. As you know, if one adds an increase of dollar gold in foreign countries to the outflow of gold, there is a change, and there was an overall deficit in the U. S. balance of payments of \$3.5 billion in 1958, and very much the same in 1959. The United States has still plenty of gold, \$19.5 billion. There are dollar liabilities very much to the same extent, but these are, under the condition of confidence, to a very great extent held here in this country.

Now, what steps should be taken, because a deficit of this magnitude cannot be sustained for long? You know that the Government has dealt with this problem, and the internal steps that are taken affect the surplus in the budget. President Eisenhower proposed in January a restraint of credit. This was applied by the Federal Reserve System and was not disputed in Congress. This attendance to cost naturally leads to strikes and difficult settlements. But, also, these are signs of the new situation. Then there are external measures, to which I will come back a little later, about sharing, of course, the opportunities given to American export.

With regard to the danger of inflation, you read a lot in the newspapers, and people come in and talk to me almost every week and say that here in the United States we want to have a big meeting to inform the people about the danger of inflation. They want to say that we will see to it that there is no wild inflation in the United States. I think

there will be no wild inflation. I don't even personally believe that there will be much creeping inflation. I hold the opinion that world inflation is over, after the Second World War. I said so last September at the Fund and Bank meeting, and I think I believe it even more now than I did then. What are the reasons? There is a great increase in the supply of all kinds of goods. You see it most clearly in fuel, in coal, and in petrol. There is a surplus, you read in the newspapers, The raw material prices are low. Foodstuff prices are low in the world markets. Freight rates are low. There is much keener competition. There are generally more balanced budgets around the world, and there is a policy of a credit restraint. Under such conditions I cannot see that on the world markets we will get any great increase in prices. It is even remarkable that, in the present boom that we have had over the last year, and very intense in Europe, there has been no increase to speak of in the prices of raw materials. That is a very rare occurrence.

For my part, I think that the recent decline of quotations on the stock exchange is very much due to the fact that people have come to realize that they cannot count with continued inflation. One used to say about the stock exchange that the discount was not only for the future but for always hereafter. Then they suddenly found a general increase in prices to be less likely. Therefore, they will have to have selected purchases on the stock exchange. There will still be

movements, of course, but there will be movements of the kind there were when they asked, some 20 or 30 years ago, a famous banker in New York whether the stock exchange would rise or fall, and he replied, "both." That is, of course, the situation. There will be more selective things. One cannot reckon with a continued inflation.

That raises another problem, and that is what we have seen in these different countries in Europe. They have to learn to live without inflation. When people have had nearly 20 years of inflationary practices, and wage increases and everything else, that has become part of their experience and practice, and now they have to change it to the practices that are necessary for a more stable price level. That is not always an easy thing. I believe that one can have from past experience as much economic growth, or more, under a stable price level and no inflation, than under a rising price level with inflation. But it needs other practices, it needs other wage settlements, more related to the average increase in productivity.

I think that is one thing that one has to attend very much to in this country. When these people come and ask me what we should do about inflation, I say, "Try to teach people what it means to live without inflation, as a lot of European countries have had to do, under a somewhat difficult and not always easy transition period."

Now a few words, still about foreign conditions and this new situation. The question of sharing of aid is very important, but it means in

practice that in England, Germany, and France, these people have their own institutions for giving aid. If you give aid, you first have to have the amount of money in your own currency. The Germans have to have the German marks, and the English have to have the sterling. These institutions that you have in the United States, the Export-Import Bank, the Development Loan Fund, and the ICM--perhaps not the same, but somewhat similar institutions--should be in the other countries. There are beginnings of such institutions in Germany and in England. They have to be developed.

The second question is discrimination. There has been discrimination against dollars that in my opinion has been continued too long. The Fund said last October that those countries that have now made convertibility of their currencies in Europe have no balance-of-payments reason for discrimination. There has been a great reduction in the past discrimination against American goods. Now comes the new question of the possibility of new discrimination under these thriving areas in Europe, the Six and the Seven. This is a problem to which the State Department, naturally, and the American authorities, have to pay great attention, and the Europeans, too because one should be blind and deaf not to see and to hear that there can be a danger for renewed protectionist pressures in the United States because of this European competition and change in the balance-of-payments situation. That would be one of the worst things, from the European point of view

and from the world point of view, because economic changes and separations usually come politically.

The State Department will have to deal with these problems of the American interests. I take it that it is something not dissimilar from what the British Foreign Office had to do after Suez. The State Department here could usually deal with these problems of trading areas without being concerned about the U. S. balance of payments. It has been good for 100 years and never created any worry. Now it begins to be a problem here, too. Therefore, a new element has been brought into the situation. Whatever one says about these trading areas, the thing that is important here is that whatever common tariffs are established they should be as low as possible, so that they lead to more activity internally and in world trade than otherwise. Only under those conditions, it seems to me, can the trading areas be acceptable from the point of view of world trade.

The world is at present at the crossroads. We have this reduction in tariffs, of which the Common Market and trading area is an example. We have also dangerous tendencies, with demand for more protection not only in this country but elsewhere. The question is whether the world will take a new turn. I think this organization for a North Atlantic Community which was proposed in Paris last January is a very important one, for many reasons. When people ask me what will happen to the dollar and what will happen to world trade, my answer is, "It

depends upon what we do." There is no fatalism. What would have happened to the pound in the World after Suez if steps had not been taken in England and credits given by the Fund? So much can be influenced by conscious governments and actions by the governments together that we should not think of it as something fatalistic but as something which we can influence ourselves.

I believe that in the Western World there is need for more coordinated direction in the economic field. It is true that the Monetary Fund is the center for cooperation in monetary matters, that GATT deals with tariffs, and that the World Bank deals with long-term investments. But there are many other problems about general tendencies in booms and depressions. There is the question of how the government takes steps when difficulties arise. There are all these troubles that can arise from specialized trading areas if the thing is not dealt with correctly. And there are fights that can arise between them if those matters are not taken in hand. Things can go wrong. If they are taken in hand and steered in the right direction, things can go well.

I therefore say that so much depends on the policies that are adopted. I am not a pessimist, but I do not subscribe to any quasi-optimism. I can see many danger spots in the present situation, and a great deal of diligence and discipline and courage and determination is needed to make a free market economy work well. We know that the

people on the other side in some ways have it easier by the centralized direction, but in some ways they have more difficulty because they haven't the help of competitive markets.

We have done well, in some ways remarkably well, since 1945, and there is no reason why we should not do well in the 1960's if we are wise.

Thank you.

COLONEL SILLS: Gentlemen, Mr. Jacobsson is ready for your questions.

QUESTION: Sir, in your report on the International Monetary Fund you stated that the United States in 1958 and 1959 took certain fiscal measures to offset the recession, and you went ahead to say that these measures adopted to remedy the situation have been on the same lines as those that have been taken in similar situations in other countries. Some economists in other countries have said that there is no discipline in the fiscal procedures of the United States. Would you care to comment on that, sir?

MR. JACOBSSON: I don't know whom you refer to as saying that. I should say that there has been a change in the attitude toward the dollar in the last year very much because of the policies taken by the present Government and announced last autumn through this budget. Once the Europeans found that there was a policy of a balanced budget and a surplus in the budget here in the United States and credit restrained by the Federal, I think the attitude toward the dollar changed

quite clearly on the exchange markets in the world. I think that change happened last autumn and is very much a result of the policies applied by the present Government.

In fact, to speak quite plainly, the view in Europe is, of course, that there should be determined effort and success by this Government to maintain the value of the dollar. In the coming election in the autumn they will ask themselves what the next Government will do. That is the kind of question I get from my European friends. I have many replies, of course. One is, if you compare the budget performance of Mr. Truman's Government with that of Mr. Eisenhower's Government, Mr. Truman was certainly as careful in his budgeting as the following Republican Government, with the increase in debt, and so on. So, on past records, there is not much difference between the two parties in this country. They ask me if that will be the same in the future. I say that it is very difficult to tell, because some of my American friends may find it easier to explain the difference between Democrats and Republicans than I do, but, as I look at the past, I cannot see any great difference in their budgetary performance.

QUESTION: Turning to foreign aid, if we continue to have the unfavorable balance of payments which we have had in the past couple of years, do you consider that it will be possible for the United States to keep foreign aid on the level that they are doing now without tying it to Buy American, since it is essentially a three-cornered movement?

MR. JACOBSSON: I am sure that if the deficits were allowed to continue at this rate in the balance of payments, it would be very difficult to tell what policies would be, and, therefore, I think that the measures taken to see to a reduction in the deficit by internal measures and others are very important. I wouldn't dare to guess what the reaction in the Congress and in the public would be if this were to continue. Therefore, I am personally very glad to see these policies that are being pursued here, which I think certainly will have an influence on the balance of payments. It is only from the next budget year that we shall have the surplus. There will already be a change in the spring, and I think the very fact that there has been this decline on the stock exchange shows that the American people do not expect inflation to continue in this country. If the inflation continued and the sentiment for inflation was strong, then I think it would be very difficult for everybody to manage the monetary situation in this country. But I can see recently a change in that sentiment, and that is, therefore, a hopeful development as to the possibility of maintaining better internal value of the dollar, because it is the internal measures in the first place that determine the value of any currency.

As regards the question of buying American, or tying to the aid the obligation to buy from this country, so far the measures taken I say affect only a minor amount of American exports. In fact, if you look carefully into how much of the aid is spent in this country, it is

quite obvious that much machinery, many things, all the agricultural exports of wheat, and so on, come naturally from this country, so an outflow of goods follows the granting of aid. To what extent special measures are needed to make this link more precise, I think it would to some extent depend upon what policies are adopted in Europe. After all, these problems will now be discussed in this new organization that is being set up, and the Europeans, too, have been linking their assistance to purchases in their countries.

So here is one of the problems that the governments will have to consider together, and I think the decision that will be taken will ultimately depend upon what general decision will be taken by the Atlantic creditor powers that are participants in this business of aid, if I may say so. It could be a setback to the promotion of world trade if you got these two definite links between aid and exports, and, therefore, if one could internationally arrive at free assistance, it would probably be to the advantage of all concerned. But it is not only the United States that such a change would affect. It would affect certain practices of the European countries--Great Britain and Germany. France, of course, is in a special position. The French aid to Algeria is almost all French exports.

I think this is one of those questions that we shall hear a lot about in years to come. My only hope is that the European countries will realize to what an extent they, too, are favored by a continuation of

freer trade policies, and that they, in the measures they are taking now in the trading areas and their aid policies, will cooperate fully with the United States.

If I may say so, I think the difficulty in the U.S. balance of payments, though it raised many problems, has had some good effects. The outflow of gold is headed to increase the monetary reserves of other countries, and in fact the redistribution of gold was to a large extent needed. Secondly, it has taught the United States that they have to attend to their own problems of increasing cost and competition more adequately than in the past. The countries need to be pulled up at certain moments, and gold has still such a dominance over the minds of men that it is only an outflow of gold that brings hope to a country and helps it to cope with the problems that face it. Other things ought to do it just as well, but the public needs something spectacular and rather sensational to be aware of a problem. The third thing is that I think that the changed position of the United States has given rise to a reconsideration of a lot of plans that were made about the Common Market, the Free Trade Area, and so on, two or three years ago. Most of these plans were made at the time when everybody talked about dollar shortage and nobody envisaged, or very few, that there might be any difficulties for the dollar. Therefore, there is certainly need for reconsideration of the plans that were made two, three, or four years ago without attention to these problems that have arisen in the meantime.

QUESTION: Sir, we have heard certain voices within the Organization of American States say that the International Monetary Fund is not really aware of the problems which exist in Latin America, and they have threats for the development of another bank. My question is, is it really necessary to have another bank? Could not the IMF be modified in its loan policies to the extent that would satisfy the requirements of these Latin American countries?

Mr. Jacobsson: There are many impressions involved. First, the International Monetary Fund has our definite task about monetary stabilization and the monetary influence on growth of world trade. It gives short-term credits. It helps countries with their temporary balance of payments problems, but not with long-term investment. I think it is very useful to have an institution specialized for this particular task. If it also went into the long-term lending business, which is a task of the Bank, then it would be diverted from its own primary business. You must remember that, with the difference in world banking and all the other institutions, the International Monetary Fund has, so to say, certain sovereign powers. Countries cannot fix the par value of their currencies without the agreement of the International Monetary Fund. Now that they are abolishing payments restriction by the convertibility, they will transfer from what we call Article 14 to Article 8, among our articles of agreement. For any new introduction of payments restrictions they have to have the approval of the Fund in order to make these restrictions internationally legal.

There is therefore one institution that has certain definite powers that are of importance to the policies and practices of the various governments. It cannot be diverted from this precise task and go into the long-term investment business. These powers are of importance and they give a field day to the lawyers. When these questions come up, there are, of course, possibilities of interpretation, and so on. For the real influence of the Fund in stabilization problems, they are of less importance, because we cannot base our concern with budget and credit policies in the individual countries on any legal power. We have the right of consultation, but it is only if the governments, themselves, want to work with the Fund in full confidence that an effective stabilization plan can be elaborated and implemented.

Therefore, it is the confidence of the countries and the influence that give us our real influence, and that has been the experience certainly in the years since I have been connected with the Fund.

As regards that, I don't think we shall see an extension of the functions of the International Monetary Fund--and why should we?--in the investment field. You have the World Bank, the Export-Import Bank, the Development Loan, the Bank in Germany, the institutions in England, and the Investment Bank in Europe. There are so many in that field that sometimes one asks if there are not too many. And the new American Bank is also in the long-term business, not in the short-term business. They do not really come into our field of action.

I think there is a certain advantage of having such a bank for Latin America, because the Latin Americans, themselves, will have to battle with the problems. They will learn the facts of life when they see how difficult it is to raise the money and how careful and cautious one must be in the investment. I think one of the advantages of having that bank is for them to get responsibility of their own. I think, personally, that there is room for such a bank in Latin America. The new President is an old friend of mine, Mr. Garrera. He was Executive Director on our Board and we are losing him now because he is taking over the new bank. He will certainly have no intention of trying to go into the field of the International Monetary Fund. He is deep in the field, and it would be sufficiently difficult for him to master his problem instead of beginning with ours.

I can quite see that in Europe especially there is a proliferation of agencies, and rather too many, and I think that out of this work now will perhaps come certain great systematization of these agencies. But, for Latin America, I think, personally, that it is rather a good thing that this bank was established.

QUESTION: Sir, the Communist bloc countries, of course, are increasing in economic strength all the time, and their trade with the neutrals and the uncommitted countries is increasing. Won't this add problems to the monetary stabilization, in which not much as yet has been done to try to take care of these problems? Will you discuss that, please?

MR. JACOBSSON: As far as Russia, itself, is concerned, the Russian authorities do not believe in inflation. In their own credit policy they are very conservative. In fact, Mr. B. K. Nehru, who is the Ambassador for the Indian government for aid questions and economic questions--a second cousin of the Prime Minister, I think--visited Moscow last autumn. When he came back I met him, and he also saw William McChesney Martin, the Chairman of the Federal Reserve Board. He said the same thing to us. He had been in contact with the Central Bank in Moscow and talked to the Russians. He said he found them so conservative in their credit policies that, in comparison with them, both the Federal Reserve System and the International Monetary Fund would be liberal, not to say radical. So he advised the council from Russia to India in handling their credit policy and avoiding inflation. It is just the same advice as comes from the International Monetary Fund.

The Russians had after the First World War and the Second World War inflation, and the people have had wide inflation. They don't like it, and they get cured. They may not be able to prevent inflationary pressures, and they have had difficulties, but they have not had a bad performance and have had relatively stable prices over recent years. Their official doctrine is completely against inflation. They tell that also to the countries they visit. So I don't think that, from the point of view of the International Monetary Fund, there will be any difficulty.

With regard to the aid, whether there can be a kind of coordination of aid, there are some people who talk about it. General DeGaulle had an interview last autumn, and he hinted that he would be in favor of a certain coordination between the Western aid and the aid from the Soviet bloc. I don't think it will happen in the United Nations, because Mr. Khrushchev has spoken very slightly about the United Nations aid, that it is not in big amounts. I think Russia would like to exploit the aid they give for political reasons, as much as they can. I think the coordination may be difficult. But, at the same time, I don't think it will affect much the monetary policies that the various countries are advised to follow from either Moscow or Washington.

QUESTION: Sir, I have two questions about gold. (1) What are your views concerning the advisability of raising the price of gold? (2) What would happen to international monetary systems if gold were traded freely as are other mineral and metal commodities?

MR. JACOBSSON: You know, raising the price of gold can be done in two ways. You can do it generally for all the countries of the Western World. It would be certainly very welcome to South Africa and Russia, the two main gold-producing areas. It would not alter the relative exchange rates between the dollar and the European currency, but people say it would help world liquidity, in that the reserves of the central banks would be bigger, and it would give them greater freedom.

My personal opinion is that the whole question of general world liquidity is not such a difficult question as people thought a few years ago. The European countries will soon have the reserves that they like to have and that are sufficient for them. The British would like to increase them, and the French. But the increase in their reserves will, at least for the current year, largely come in the form of repayment of debts, largely in dollars. So they will not be able to add much to the gold in their vaults.

There is the question of the dollar, whether the relation between the amount of gold held in dollar liabilities is the proper one. That I think will depend upon confidence. If people continue to have confidence in the dollar they will hold the dollars. Whether the debt question will be much changed by alteration in the price of gold, I am not sure, because in the end it will depend upon what happens to the United States balance of payments.

I am always afraid that people think there is some easy way out, like raising the gold price to solve these problems, when in fact it is a question of relative price levels and cost levels and budget policies. It rather tends to disguise the real problem that we have to solve. In fact, in 1933 and 1934, when President Roosevelt increased the gold price and unemployment remained, he found his problems were not solved by this measure. I think this taught us, perhaps once and for all, that there is no such easy way out as some people will try to make us believe.

About gold being traded freely, I don't think it would matter much. The Swiss in Europe trade gold freely, and the French have taken probably the highest amount of hoarded gold in the world. They have not yet got sufficient confidence in the franc to allow any of that gold to come out of the hoard. Confidence is a plant of slow growth, and it will take more than a year or two before any gold comes out of hoarding. But, anyhow, no new gold seems to have gone into hoards over the last year in France, which already is an advantage. In Switzerland there has been some gold hoarded, and in Germany, too. These are minor amounts. I don't believe that many people would take gold except as a hedge against inflation, if they lost confidence in the dollar. If confidence were lost to the extent that people began to hedge against inflation and buy gold, many things would happen. It would be a very difficult situation.

My interpretation of the decline in values of quotations on the stock exchange is that people are beginning here to realize that there will not be inflation forever but that perhaps we will go against a period of greater price stability.

I usually tell also the gold-producing countries that they have at present a gold production of a billion dollars a year in the Western World, and the central banks are willing to take most of this and put it in the cellars, because they know that other people will take it in case of need. It is a kind of convention that the world has had for as far back

as history goes, that people take this gold. There is no international law about it, but they are confident to do it. The experience of mankind is that you only collect and save and gather what is rare. If we increased the output by an increase in the gold price to say \$2.5 billion a year, is it certain that people would continue this convention and take the gold--take it out of the ground in South Africa, and put it into the cellar of some central bank in the world? It may be the trick wouldn't serve any longer, if people went too far. Therefore, with the present output of gold, I think the world will continue to use it as a basis for its currency, and it serves a very useful purpose.

When silver was produced more abundantly, silver was abandoned as a basis for currency. And, if the gold producers would produce too much gold, the same might one day happen to them. Therefore, I think that, even from their point of view, it is not too wise to ask for the higher price.

QUESTION: Sir, the United States share of world exports has remained approximately the same, according to U.N. statistics, since 1951, and has increased in absolute terms by over 50 percent dollar-wise. I wonder, if we increased our competitive position enough to take a larger share of this market of exports by, say about \$3 billion, to raise the deficit in the balance of payments, whether or not this would not have an adverse effect on the European economies that have just now recovered.

MR. JACOBSSON: I am always suspicious when I hear a country not doing anything out of consideration to others. I have heard it so often. I think that the truth of it is that, if there is an expansion of world trade generally, at the same time, everybody will get more. The great advantage from 1950 to date has been that there has been a rising curve of world trade. I think there are chances that that will continue, because there is an expansion in the standards of living, people like foreign goods, and, with this increase in national spending and standards of living, we get more world trade. I think we know sufficient about monetary policy so that we can prevent deflation of the kind that came in the 1930's and brought so much trouble at that time. I am not really afraid of that. I think we know how to stop that now. But I am somewhat afraid of all these trade areas, all the tendencies to increase protection that I can discover in the world, and at the same time the tendencies to lower the high protectionist duties among the Six and among the Seven. I can see tendencies in the world in either direction, at the present.

I said before that we are at the crossroads, and we have to be very careful that we do not get increased discrimination and increasing protectionism in the United States. Then I don't know what would happen. But I think that people are sufficiently aware of these problems, I should say, since last summer, when people began to discuss these things. And I think these ideas of having some kind of atlantic

economic organization to deal with these matters is very important-- whether we take the wrong road or the right road. There are many things that can happen.

Under the Common Market, if it is accelerated, there will be an increase in duties to the common tariff of raw materials. I was in Germany, and lots of the Germans said that it would be fortunate for the countries that have the higher tariff to add to their cost. They have still to withstand inflation and higher competition. It should also reduce the earning powers of the raw-material producing countries. I say that such tendencies out of the Common Market and the Seven, if they materialize, will be very dangerous. After all, it is in the raw-material-producing countries that the Communist propaganda is the strongest. There one has to be very careful. These things are being looked into more fully now than they were before. I know that this is a politically important question, too. There are differences of opinion between the different governments among the Six. The Seven are also perturbed about it. You hear it all over the place.

There are things that people can say, that if you can increase world trade sufficiently in spite of the higher duties, it can increase earning possibilities, and then it will be all right. We can see to it that that happens, but I can see many things that can go wrong. But I can also see that things are being turned to the right direction. After all, we talk about assistance to the raw-material-producing countries,

but more important is their earning possibilities; and their diversification of industry and their economies will depend very much upon the possibilities of selling their products to the industrialized countries.

Therefore, the tariff policies of these countries must be so arranged that help is given in a more effective way than simply by financial grants. I believe that these problems will have to be discussed this spring and over the next year, and I can see different tendencies when I go around the world. I can still hope that the thing will be moved in a sound direction. But you know the definition of sound. Somebody asked, "What do you mean by a sound opinion?" And the reply was, "That's my opinion." There are other people who think that another opinion is the sound opinion.

Thank You.

COLONEL SILLS: Mr. Jacobsson, I am sorry our time has run out. We certainly appreciate your coming here today and giving us the benefit of your wisdom and experience in this foreign area of international economic stabilization. Thank you very much.