

February 26, 1960

Dear Mr. Burgess:

I have the honor to reply to your letter of the 28th of January, 1960, in which you asked me to communicate views on problems connected with future economic organization that are now being dealt with by your Group of Four. Some of the questions in the tentative list attached to your letter have a bearing on the work and experience of the International Monetary Fund. This applies of course in particular to the work hitherto carried out by the Organization for European Economic Co-operation in the monetary sphere.

It is definitely our opinion that the work done by the O.E.E.C. through the European Payments Union, and under the subsequent arrangements of the European Monetary Agreement, has been fruitful in establishing realistic conditions in European monetary relations, and has contributed to the evolution of a smoothly functioning financial system in Europe, with valuable effects on conditions in other parts of the world. The O.E.E.C. and its members have been conscious of their undertakings to the Fund, and their efforts in Europe have helped to promote the objectives of the Fund.

As you know, close and friendly relations have been maintained between the Fund and the O.E.E.C., first with respect to the E.P.U. and then the E.M.A., and these relations have led not only to an exchange of relevant information and views, but also to valuable cooperation in the preparation, financing, and implementation of several stabilization programs. Thus the O.E.E.C. and the Fund assisted in the preparation of the stabilization program presented by the French Government early in 1958; and this cooperation between the two institutions was continued in Turkey in the summer of 1958, in Spain in the following year, and recently in Iceland. The close and effective contact maintained between the two institutions has enabled the Fund and the O.E.E.C. to participate, together with others, in the provision of financial assistance for these countries under so-called "parallel arrangements." In addition, the fact that the O.E.E.C. is so greatly concerned with trade relations has been of real importance, not only at the time of the preparation of these programs, but also in their subsequent implementation. The specialized knowledge which the O.E.E.C. has of its member countries has been of great value, while the participation of the Fund has ensured that more global considerations have not been forgotten.

What I have said above merely amplifies what I have already stated on other occasions. For example, in my opening speech at the Fourteenth Annual Meeting of the Board of Governors of the International Monetary Fund on September 28, 1959, I expressed the opinion that "the Fund has been happy to cooperate with the O.E.E.C., which is able by virtue of its special knowledge and connections to advance the solution of problems of countries in its area."

It may perhaps be thought, now that so many European countries have been able to establish external convertibility and have continued to improve their reserve positions, that there will be less need in the future for the kind of stabilization programs with which the O.E.E.C. and the Fund have been concerned in Europe in the past. Although it is not possible to forecast the need for such programs, there will always remain the problem of guarding against any backsliding. Confidence is a plant of slow growth, not least in the monetary sphere, and it is essential to be prepared for the unexpected.

May I add that basic harmony has prevailed in the promotion of common monetary objectives, and I can see no reason why this would not continue in the future, assuming that the E.M.A. were to operate along much the same lines as in the past.

On the basis of the Fund's past experience, I can conclude that the work that is now performed under the European Monetary Agreement, as a successor to the E.P.U. is well worth continuing, with such constitutional or other changes in the O.E.E.C. as may be thought desirable.

The existence of the O.E.E.C. in no way affected the observance of the obligations that the individual countries had assumed in relation to the I.M.F. No doubt it will once again be made clear in the course of your work that the obligations owed by members to the Fund will in no way be affected by their membership in any broadened organization that I understand is now contemplated.

Through the establishment of external convertibility, which has led to the wide removal of payments restrictions, the monetary system is able to operate without being directly affected by trade policies practiced by the individual countries. I think that it should be a guiding principle for the future that trade arrangements should not lead to any payments restrictions; such a principle is in conformity with both the general purposes of the Fund and the obligations undertaken by its members.

I should also like to refer briefly to certain aspects of assistance to less-developed areas, which is one of the items in the list of questions annexed to your letter.

The Fund's financial resources are, as you know, available for not more than three to five years to assist countries in balance of payments difficulties, with the primary object of gaining time for the countries concerned to take effective corrective measures. The Fund does not make development capital directly available to the underdeveloped countries and its contribution to their progress in this field is therefore an indirect one: it is, however, no less important for that reason. In the present efforts to increase the flow of development capital from the main creditor countries to the less-developed areas, the activities of the Fund are, I think, useful and important in two particular aspects -

- (a) The regular contact of the Fund with its members through consultations and discussions helps the countries to work out

their development plans and policies with due regard to the purposes of the Fund to which they have all subscribed, and therefore on the basis of stability under non-inflationary conditions;

(b) Access to the Fund's resources--under the principles and policies worked out for their use--is likely to increase the chances that temporary difficulties encountered in the course of development can be surmounted without harm to the economic structure of the country itself or to its trading partners.

Now that it is being increasingly realized that the only reliable basis for sustained growth is the maintenance of monetary stability, the Fund can play a part of considerable value in relation to the problems of development. In the event that the broadened organization which is now contemplated will be concerned with these problems, it is my belief that close relations with the Fund should prove valuable for all parties concerned in this field as well.

I have confined the observations in this letter to matters which are directly related to the functions of the Fund, having borne in mind the experience gained from our relations with the O.E.C. and with countries in the process of development.

I remain,

Yours sincerely,

"Signed: Per Jacobsson"

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