McNamara Papers

The World Bank Group Archives

1771095

A1993-012 Other #: 10 209346B

Contacts with member countries: Italy - Correspondence 01

Contacts

Italy (1968-1980)

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1771095

A1993-012 Other #: 10 209346B

Contacts with member countries: Italy - Correspondence 01

ITALY

ITALY

	4/26-28/68 (Mont Tremblant Conf.)	Umberto Agnelli, Administrator, FIAT S.p.A., Turin, Italy
		Roberto Olivetti, Managing Director, Ing. C. Olivetti & Co.
		Aurelio Peccei, Managing Director and Director General, Italconsult, S.p.A., Ing. C. Olivetti & Co., Ivrea, Italy
		Leopoldo Pirelli, President, Pirelli S.p.A., "Centro Pirelli"
		Alberto Ronchey, Foreign Correspondent "La Stampa"
		Altiero Spinelli, Director, Institute of International Affairs
		Ugo Stille, American Correspondent "Corriere della Sera"
1.	5/29/68	Dr. Alberto Ferrari, Managing Director, Banca Nazionale del Lavaro, Rome, and Mr. Taddei, New York representative
	6/18/68	Dr. Mattioli, Head of the Banca Commerciale Italiana, and Mr. Bombieri
2.	7/5/68 (Rome)	Emilio Colombo, Minister of Finance
3.	7/6/68 (Rome)	Dr. Guido Carli, Governor, Banca d'Italia
	9/30/68	Marquis de Maillardoz, Vatican Representative
	10/7/68	Dr. Raffaele Mattiolo, Banca Commerciale Italiana (at IFC Advisers dinner)
	4/28/69 (Rome)	Prime Minister Aldo Moro (entertained)
	"	Dr. Guido Carli, Governor, Banca d'Italia
	"	Pope Paul VI Cardinal Roy, Chairman of the Pontifical Commission for Justice and Peace
	4/29/69 (Rome)	Msgr. Gremillion, Secretary of the Commission for Justice and Peace
4.	"	Emilio Colombo, Minister of Finance
4a.	5/2/69	Dr. Victor Umbricht, Chairman, FAO Industry Group, et al (list att.)
	5/9-11/69 (Bilderberg)	Giovanni Agnelli, President FIAT S.p.A. Antonio Cariglia, M.P.; President, Committee for Foreign Affairs Fabio Juca Cavazza, Counsellor for International Relations at the G. Agnelli Foundation Piero Ottone, Editor-in-Chief, "Il Secolo XIX" Lorenzo Vallarino Gancia, Managing Director, GANCIA S.p.A.
	6/6/69	Mrs. Graziella Weisser, Il Sole, Ore, Italy (with other newsmen)

	7/18/69 (Aspen - Eisen Ex.)	Luigi Ferrari-Bravo, Prof. of International Law, Bari Univ.
	10/1/69	Emilio Colombo, Minister of Finance (at Canadian Ambassador's dinner for the Pearson Commission)
5.	10/2/69	Emilio Colombo, Minister of Finance
6.	11/26/69	Ilario Fiori, Italian TV taping (RAI)
7. (Filed under VATICAN).	1/20/70	Archbishop Giovanni Benelli, Deputy Secretary of State, Vatican Monsignor Marvin Bordelon, Director of the International Affairs Department, U.S. National Conference of CatholicBishops Monsignor Joseph Gremillion, Secretary of the Pontifical Commission on Justice and Peace
	2/22/70 (Montebello)	Ambassador Egidio Ortona
	5/20-22/70 (Paris)	Representatives and Observers at OECD Meeting: Antonio Giolitti, Minister of the Budget and Economic Programming Francesco Cavalletti de Oliveto Sabino, Chief of the Permanent Delegation Guiseppe Ferlesch, Director General, Ministry of Commerce Francesco Accardo, Director General, Ministry of the Budget Giuseppe Jacoangeli, Counselor of the Embassy, Ministry of Foreign Affairs Silvano Palumbo, Ministry of the Treasury Raffaello Triolo, Ministry of Commerce Sergio Maggi, Ministry of the Budget Massimo Guerrieri, Ministry of the Budget Giancarlo d'Alexxandro, Ministry of the Budget
8.	7/6/70	Aristide Gunnella, Member of Parliament
9.	10/29/70	Mario Pedini, Undersecretary, Ministry of Foreign Affairs Ambassador Egidio Ortona Alberto Rossi, Commercial Counselor, Embassy
10.	6/30/71	Dr. Guido Carli, Governor, Banca d'Italia Dr. Gradi, Banca d'Italia representative in New York
	10/4/71	Dr. Raffaele Mattioli, Banca Commerciale Italiana (IFC Adviser)
11.	9/29/71	Sir Denis Rickett's meeting with Dr. Ossola, Banca d'Italia
12.	3/17/72	Dr. Rinaldo Ossola, Vice Director General, Banda d'Italia
	6/16/72 (NY)	Dr. Giorgio Cappon, General Manager, Institut Mobilaire Italiano, Rome
13.	1/30/73	Mr. Enrico Cucci, Managing Director, Mediobanca
	4/18/74	Minister Antonio Giolitti, Minister of Budget and Economic Planning (At Bank office of the UN)

	5/8/74	Dr. Roberto Olivetti, Managing Director, Olivetti Corp.
	10/8/74	Aurelio Peccei, Club of Rome (dinner at home)
	4/17/75	Gaetano Stammati, President, Banca Commerciala Italiana (Joint Committee on Remuneration - Lunch)
	4/25-27/75 (Cesme, Turkey)	Bilderberg: Giovanni Agnelli, FIAT S.p.A. - Turin Guido Carli, Bank of Italy - Rome Roberto Ducci, Ministry of Foreign Affairs Francesco Forte, University of Torino Giorgio La Malfa, Centrostudi de Politica Economica - Turin Arrigo Levi, La Stampa - Turin
	6/12-13/75 (Paris-Dev. Cte.)	Guido Carli, Governor, Bank of Italy
14.	9/2/75	Paolo Baffi, Governor, Bank of Italy Silvano Palumbo, Director General, Ministry of the Treasury Mario Ercolani, Deputy Managing Director, Bank of Italy
15.	10/23/75	Camillo Debenedeth (or Debenedetti), International banker
16.	11/26/75	Mauro Calamandrei, L'Espresso
	1/6-10/76 (Dev.Cte., Kingston)	Emilio Colombo, Minister of the Treasury Silvano Palumbo, Director General, Ministry of the Treasury
	10/22/76	Giovanni Agnelli, President, FIAT
17.	12/6/76	Giulio Andreotti, Prime Minister
	2/3/77	Umberto Agnelli, Senator and Leader of the Christian Democratic Party)
	3/1/77	Ambassador Roberto Gaja (Dinner at the Embassy)
	3/2/78	Ambassador Piero Vinci, Permanent Representative to the UN
18.	5/3/79	Minister of Foreign Trade Stammati, Amb. Paola Pansa Cedronio
19.	3/11/80	Piero Schlesinger, Chairman, Instituto Mobiliare Italiano Giuseppe Saracini-General Manager,IMI Efisio Cao di San Marco, Deputy General Manager, IMI Adolfo Appolloni, US Representative of IMI
	3/13/80	Rudolfo Ruggiero, Adviser to the President of Italy

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Operational Files

DATE: May 29, 1968

FROM: S. Aldewereld

SUBJECT: Borrowing in Italy

On May 29 Mr. McNamara met with Prof. Ferrari, President of the Banca Nazionale del Lavoro. Also present were Mr. Gianani, Alternate Executive Director, Mr. Taddei, New York representative of the Banca Nazionale del Lavoro, and Mr. Aldewereld.

Prof. Ferrari first referred to the sizeable orders with Italian firms being financed out of the proceeds of Bank and IDA loans and credits. He then expressed the hope that the World Bank could do "some financial business" in Italy. There was apparently some connection in his mind between the two points.

Mr. McNamara said that the Bank needs to raise substantial funds and asked Prof. Ferrari what his opinion was about the likely trend of interest rates. Prof. Ferrari expressed the view that the rates are likely to go up and referred in this connection to two recent dollar issues of Italian entities, ENI (the Italian State Oil Company) and Cassa per il Mezzogiorno, both with a 20 year term, 6-3/4% coupon, and an issue price of 98.

The conversation then turned to the question of a possible Bank borrowing in Italy denominated in Italian liras. Prof. Ferrari said that in his opinion the coupon for a World Bank lira issue would be of the order of 6 - 6-1/4%. He added that the amount of such an issue could be of the order of the equivalent of $40 - $50 million (25 - 30 billion liras). In this connection Prof. Ferrari referred to the organizational arrangements for World Bank issues in Italy. He said that whereas the previous World Bank issue was placed under the leadership of the Banca d'Italia, he understood that a promise for the leadership for the next issue was given to Banca Commerciale Italiana (BCI). Prof. Ferrari felt that in view of the size of his institution a good case could be made to have future World Bank issues in Italy co-managed by his Bank and the BCI, with the leadership changing with each subsequent issue as is the World Bank system for bond issues in the United States.

Mr. McNamara said that an important consideration was the possibility of the World Bank tapping the Italian market regularly rather than only once. Prof. Ferrari said that he agreed that the World Bank should have a continuous presence in the Italian market. He added that the question of World Bank borrowing in the Italian market should be discussed between Mr. McNamara and Dr. Carli. Mr. McNamara said that he intended to do so, possibly in early July when he might stop in Rome on his way back from Bucharest.

cc: Mr. McNamara
Mr. Cavanaugh
Sir Denis Rickett

SAldewereld:mc

<u>MEMORANDUM OF CONVERSATION WITH COLOMBO - 7/5/68</u>

1. A few days ago Colombo was appointed to a new Cabinet position expanding his former responsibilities for the economy to include direction of the budget.

2. He received Siem and me at 8 p.m., obviously tired and nervous, but nonetheless friendly and cooperative.

3. He stated that requirements for support of the French franc and for support of the moves to shift the British pound away from use as a reserve currency made it difficult for the new government of Italy to approve a World Bank bond issue in Italy in the immediate future. It appeared to me that domestic political considerations were also a major factor influencing his judgment.

MEMORANDUM OF CONVERSATION WITH CARLI - 7/5/68

Present: Messrs. Aldewereld and McNamara

1. Carli used the same arguments Colombo did in stating why it would not be possible for the Italian Government to approve now a World Bank bond issue in Italy, but he clearly indicated in addition that domestical political considerations made a public issue impossible now.

2. Carli stated it was his intention to funnel domestic savings into productive domestic invesment and to channel Italy's trade surplus into the importation of capital goods instead of the importation of gold.

3. Carli argued that because Italy was a "semi-developed" country, its domestic capital requirements were large and it should not normally be a capital exporter. I replied I understood that position and that I would just as soon borrow privately instead of publicly during the periods when Italy would temporarily be exporting capital. Carli agreed with this position and stated that a private loan at the end of the summer after trade data became available might be possible. He said we could discuss this subject at the Annual Meeting.

4. As Siem and I were leaving, Carli suggested that the IBRD and the IDB coordinate their operations so that both were not borrowing for Latin America.

RMcN

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Colombo 4/2 9/69 ← Italian Finance Ministry

2. Final approval of IDA "2nd replenishment".
1. Summary of 69 IBRD operations:
if delayed he might consider also Italy.
3. In answer to ques re suggestions [illegible]:
a. applauded expansion of activity in Africa.
b. Encouraged continued attention to agri + educ. which he considered very important.
c. In agri, promote agri diversification to support price stability. Prefers diversification to "price stabilization".
d. Stressed his proposal of last Sept re contribution to IBRD + IDA associated with SDR's. In case of Italy "this would not require legislative action." (I question this).
Volcker expressed great interest + said he would study. Schiller was interested but with certain preoccupations, i.e. that amt of SDR's should not be influenced by considerations of aid.
Colombo asked me to mention to Schweitzer.

Fish

Colombo (Italian Finance Minister) 4/29/69

1. Summary of '69 Bank operations.

2. Final approval of IDA "end of spring" and if delayed he might consider advance payments.

3. In answer to question re suggestions, Colombo:

   a. Applauded expansion of activity in Africa.
   b. Encouraged continued attention to agriculture and education which he considered very important.
   c. In agriculture: promote agricultural diversification to support price stability. Prefers diversification to "price stabilization."
   d. Stressed his proposal of last September re contribution to Bank and IDA associated with SDR's. In case of Italy "This would not require legislative action." (I question this). Volcker expressed great interest and said he would study. Schiller was interested but with certain ________ positions, i.e.: that amount of SDR's should not be infuenced by considerations of aid.

   Colombo asked me to mention to Schweitzer.

RMcN

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FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: May 1, 1969

FROM: Richard H. Demuth (dictated but not read)

SUBJECT: FAO Industry Group

Mr. McNamara: May we set up the meeting in the Board Room (27 people!)? RBS 5/1

1. The FAO Industry Group which is meeting with you tomorrow from 11:30 A.M. to noon will consist of 23 industry representatives, as shown in the attached list given to me by Dr. Umbricht, Chairman of the Group. I have asked Mr. Evans and Mr. Raj to be present at the meeting.

2. Dr. Umbricht suggests that he open the meeting by explaining the purposes of the FAO Industry Cooperative Program and the reason they have sought a meeting with the Bank. In brief, this group sees itself as having three functions in relation to FAO:

(i) advising FAO on any industrial matter coming within any agro-allied field;

(ii) helping FAO carry out feasibility studies and implementing projects which those studies demonstrate to be feasible (An example given by Umbricht was of a project in Turkey involving the growing, canning and marketing of potatoes in which the Heinz Company handled the production side and a Swiss company the distribution side, both together with a local Turkish partner.); and

(iii) facilitating, through the group's secretariat in Rome, contacts between individual members of the group and FAO, particularly when companies want FAO's help in overcoming problems in connection with their operations in the LDC's.

The group has made contact with UNIDO and has sought the meeting with you in order to open a dialogue with the Bank. The only specific thing I think they would like to get from the Bank at this time is an expression by us of general interest in cooperating with them and the designation by you of a liaison man who could be their point of contact with the Bank Group and who would be invited to attend their annual meeting and the meetings of their Executive Committee in Rome. The Bank has in fact attended meetings of the group in Rome in the past through either Peter Reid or the Paris office, and at one time David Dodd of IFC gave a talk to the group. Henry Ergas, Director of the FAO/Bank Cooperative Program, is also present at all meetings of the group.

President has seen

3. Since Umbricht made clear that their basic interest is in opening a dialogue with the Bank rather than in any specific form of cooperation, I suggest that you might reply to Umbricht's opening statement by simply expressing your pleasure at their visit, emphasizing how important we think the development of both agriculture and industry are for the LDC's and our interest in working as closely as possible with private concerns which are willing to invest in the developing countries. I think you might then talk briefly about IFC and say that IFC would be happy to consider requests from any members of the group to participate in any productive investments which they were considering in the LDC's. Finally, I think you might say that, while direct contacts between individual companies planning investment projects in the LDC's with the Bank Group are likely to be the most fruitful form of cooperation between the Bank Group and the members of the FAO Industry Program, we would be glad to explore any other forms of cooperation that might seem to the FAO Industry Group desirable. To this end, you might wish to appoint either Mr. Raj or myself as a point of contact between the Bank Group and the FAO Industry Program and suggest that further explorations be conducted through that channel.

4. I have asked Mr. Evans and Mr. Raj to be available until 12:30 so that if there is anything further the FAO Industry Group wants to explore after you have left at noon we would be available to stay on with them.

cc: Mr. Raj
Mr. Evans

Dr. V. Umbricht, CIBA, Switzerland, Chairman

James F. Black, Coopers International

Charles Dennison, International Minerals and Metals

W. W. Allen, Dow Chemical

R. F. Cornelson, Ralston Purina

Henry Meisel, CPC International (formerly Corn Products)

J. J. Beatty, National Dairy

Frank W. Tuppeny, Pfizer International

R. L. Vayo, St. Regis Paper

Dr. A. E. Odell, General Mills

George French, Deere & Company

Dr. F. T. McGuire, V. P. Deere

Dr. E. Oestermann, Voest, Austria

Eldridge Haines, Business International

John Argall, Director of International Development, Del Monte

Galen C. Winter, Washington Representative, New Holland and Clayson

T. K. Shoemaker, V. P. Government Relations, H. J. Heinz

M. W. Griffin, V. P. Operations, House of Seagram

Carl Landegger, Black Classon

Peter Comanduras, Merck, Sharpe and Dohme
Executive Director, International Professional Relations

Dr. Steven Bogyo, Director, Office of Nutrition for Developing
Nations, General Foods Corporation

Mark J. Parsons, Ford Motor Company, Public Relations Manager

Dr. George L. Mehren, President, Agribusiness Council, as Observer

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ANNUAL MEETING 1969

MEETINGS WITH GOVERNORS OF PART I COUNTRIES

ITALY

The Italian Minister of the Treasury, Mr. Emilio Colombo, called to see Mr. McNamara at 11:00 a.m. on Thursday, October 2nd. He was accompanied by Mr. Rota, the Italian Executive Director, and by Mr. Palumbo.

Mr. McNamara described to Mr. Colombo the timetable which he had in mind for the negotiations leading to a Third Replenishment of IDA. He would be writing shortly to Ministers asking them each to appoint a Deputy to help him in carrying on the negotiations.

Mr. Colombo enquired whether we had formed any view as to the amount which would be needed for the replenishment.

Mr. McNamara said that this depended on many factors. If one were to base a judgement on the needs and absorptive capacity of the developing countries, the figure would undoubtedly be very high. The same would be true if one took as the standard the capacity of the Bank staff to process IDA credits for worthwhile projects. A different result might follow if one considered the willingness of the member governments to contribute. He would hesitate to name a figure at this stage but it was clear that it ought to be substantially above the present level. He hoped that the introduction of SDRs would create a situation in which governments would be more ready to increase their contributions. He had noted with interest what Mr. Colombo had said about the desirability of a link between reserve creation and development finance.

Mr. Colombo said that the proposal he had made was for an indirect link. It was not possible as the scheme was now drafted to make a direct allocation to IDA of SDRs themselves. It would, however, be reasonable for countries receiving SDRs to use part of the additional reserves thus placed at their disposal to replenish IDA. The Italian Government was sympathetic to the Third Replenishment as an idea. If agreement along the lines of his proposal could not be reached, they might be prepared to adopt it unilaterally. The idea of the link should, in any event, be pressed on other countries. Otherwise developing countries would feel that the SDR Scheme was something from which they did not get adequate advantages.

Mr. McNamara then described the study which the Bank was making of the need for a possible change in its capital structure. He could not say what the result of this study might be, but one possibility was that he would ask for an increase of, say, 33% in the subscribed capital of the Bank of which 20% would be called over a period of years (2% immediately and the remaining 18% over a period of, say, four or five years).

Mr. Colombo said that he could not express a view on this proposal at this stage. He would like first to examine the figures which would be involved. It was the policy of his government to extend a substantial part of their aid through international organizations.

The Minister then referred to the financing of a port development at Mogadiscio in Somalia. He had recently discussed this project with the Somalian

President has seen

Ministers who had asked him to help them find finance for it. One possibility would be that the cost should be met in three parts: (1) by a loan from the European Investment Bank; (2) by a loan from the I.B.R.D.; (3) by a direct participation from Italy. The Somalian Ministers had told him that they had two port development projects - one financed by the United States and one by the U.S.S.R. - and that they would very much like to balance this by a project financed internationally.

Mr. McNamara said that he would be glad to consider this question. (At his request I have asked Mr. El Emary to prepare a note on this subject.)

D. H. F. Rickett
Vice President
October 8, 1969

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ck Cop for Jordan
Graduates
Read Montreal
Text:
Res.
Pop
Read Pop speech

FIORE QUESTIONS

1. During the World Bank's 20 years of experience, what things have gone right, and what has gone wrong? Have you developed any new ideas about how to redress the imbalances between rich and poor? Is there need for a new "aid vehicle" to help in countering present trends (of a widening gulf between rich and poor)? Do you have any miracle solutions to suggest as you did at Ford or the Pentagon?

+ Pop statistics - falling death rate

2. What was the genesis of your Montreal speech? Are there countries where better economic conditions have actually averted violence? How does it feel to run an organization with a budget of 1/75th of the Pentagon, but with a different goal? What do you think about the relative emphasis countries should give to investing their own and outside funds -- allocating, for example, 25-30% of national budgets for defense and ten percent or less for education; is this a proper balance?

Today gap of $3000 - will widen to $9000 at end of century: US 10,000; India 200

3. What is the relationship between education and economic development, and what does the Bank have in mind in this field? Could you give some examples of projects you have done, and of projects you would like to undertake?

1. Econ growth has ~~has~~ proceeded at rates faster than the indus. countries enjoyed at similar stages in their history

2. and yet with the pop. explos. & the rev. of rising expectations we face a crisis of immense proportions

3. ... 's statement the rev. of rising expectations fueled by ~~the~~ instant com. + the threatening gap between rich + poor -

5. and at the time of greatest opportunity + greatest need a crisis of will in the Western World

Must use technology as a tool + not an end - this is what the revolt of youth is about in America - with any tools must sound social [illegible]

4. By many writers, you are referred to as one of the authors of the "American Descent into Technology." Do you think that technology and applied sciences can succeed in uplifting the world where traditional concepts of human development have failed? What possibilities do you foresee of applying the technological revolution to problems of economic underdevelopment? If technological, organizational and managerial techniques do give us hope for progress, how can these "modern cultural weapons" best be transferred to needy countries?

5. Are you optimistic about the world our children will inherit? When you have left jobs, do you think first about what you have accomplished, or do you feel guilty about the things you haven't been able to achieve? Do you feel hopeful about the future of the world?

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

July 1, 1970

Mr. McNamara:

Mr. Aristide Gunnella, National Deputy of the Italian Parliament, will be in Washington until Wednesday, July 8. He has requested an appointment with you -- Mr. Rota recommends that you see him.

May we schedule?

7/1
OK –
20 min back-to-back

ps

William A. Maxwell
265-8300

Mond 12:10

Name: Aristide GUNNELLA

Place and date of birth: March 18, 1931, Mazara del Vallo, Sicily

Citizenship: Italian

Marital status: Married

Home address: Via Veneto 20, Palermo

Academic training: Degree in Law from the University of Palermo

Present positions: PRI national Deputy; Member of the National Council and of Directorate; Provincial Secretary Republican Party, Palermo.

Past positions: PRI Vice Secretary for the Sicilian Region; Senior officer of SOFIS, semipublic regional investment agency headquartered in Palermo; Head, Study Office of SICINDUSTRIA; Head, Regional Study and Research Center, Palermo.

Publications: Articles on economics and politics in newspapers, weekly and monthly publications.

Membership in professional organizations: Lions International

Travels abroad: Throughout Western Europe, USSR, Tunisia during past eight years as official of Regional Government of Sicily and as a tourist; In US in October 1967, for seven days under grant.

Preferred dates of travel to the U.S.: June 24, 1970, for 30 days

Knowledge of English: Interpreter required

Suggested Program of Activities in the U.S.: The Hon. Gunnella indicated that the following areas of American life interest him:

1) The Economic field; he is interested in meeting Arthur Burns, Chairman of the Federal Reserve Board, and would like to meet the president of a large bank, possibly the Bank of America in San Francisco.

2) Department of State - would like to discuss with a Department Undersecretary concerning Soviet and Chinese relations with the U.S.

(OVER)

(Gunnella's program suggestions-Cont.)

3) US Senate and House of Representatives: would like to meet one Senator and one Representative from each party; if possible would like to meet with members of Defense and Finance Committees; is interested in meeting Senator Muskie, if possible.

4) World Bank; would like to meet Robert Mc Namara.

5) Pentagon: would like to meet with civilian liaison officer dealing with armaments industry and defense contracts.

6) Stock Exchange: would like to talk to financial expert about the Exchange

7) Newspaper and TV: would like to talk to the editor of a big newspaper such as NY Times or Washington Post and visit a large network operation.

8) Universities: would like to visit both large and small universities; specifically mentioned MIT, Berkeley, Stanford; would like to meet with students representing both radical and moderate points of view.

9) The racial situation: would like to meet with exponents of various shades of opinion on the position of blacks in American society. He is interested in seeing the racial situation in an industrial town like Detroit.

10) Would like to meet with a young entrepreneur willing to talk about his experiences and to meet with a spokesman for the intellectual world such as John Gardner, Director of the Ford Foundation.

His extracurricular interests include the theater (although his English is limited), the opera, he is interested in home hospitality but since he has many Italo-American friends would prefer to see other aspects of American life.

__Sponsor's comments:__ Gunnella is one of several national leaders of Italy's small Republican Party (PRI) who personify that party: young, vigorous, articulate, well informed, with a modern, pragmatic outlook, anti-Communist, pro-US, and pro-NATO. He worked for a number of years in the industrial-economic area in Sicily, at the same time working hard for the PRI

(Gunnella's program suggestions-Cont.)

in Sicily. He was elected to Parliament in 1968 and has since been projected to the national stage. He often speaks for the party in the Chamber of Deputies and is developing a reputation as the party's spokesman in several areas.

The PRI is a member of the center-left coalition, which has governed Italy since 1962-63.

Gunnella is a hard worker with a devouring curiosity and considerable knowledge about the United States. He visited it for a short time in 1967. He was powerfully impressed by President Kennedy and leans in sentiment toward the US Democratic Party but has no prejudices against the present administration. He is easy to know, open with his remarks, and likeable. He is not known to have any dietary, physical, or other idiosyncrasies that could affect the success of his trip.

Suggested itinerary in the U.S.: Mr. Gunnella mentioned the following places as of special interest in the United States:

New York - Washington - Boston - Detroit or Chicago -- a typical southern city and New Orleans, San Francisco and possibly other cities of the Pacific coast.

9.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: November 6, 1970

FROM: John Blaxall JB

SUBJECT: Italy and the Second IDA Replenishment

I refer to Mr. Benjenk's memorandum dealing with the visit to the Bank of Mr. Mario Pedini, Italian Under Secretary of Foreign Affairs, on October 29. In that memo, Mr. Benjenk reports Mr. Pedini as saying that the law ratifying Italian participation in the Second Replenishment of IDA "had been passed ten days previously".

On November 2, a memorandum from Mr. McNamara to the representatives of Part I countries (IDA/Pt. I/70-1) made indirect reference to Italy's non-ratification of the Second Replenishment. Because the relevant part of this memorandum had been checked by this Department with Dr. Rota before being finalized, we checked again with his office this morning to ascertain the precise status of Italy's participation in the Second Replenishment. He indicated that Mr. Pedini's statement might have been somewhat misleading, since although the relevant law had indeed been passed by the Italian Senate, it still awaited passage in the Chamber of Deputies.

DTBrash:aj

cc: Mr. McNamara
Mr. Knapp
Sir Denis Rickett
Mr. Benjenk
Mr. Sacchetti

President has seen

CONFIDENTIAL

MEMORANDUM FOR THE RECORD

November 4 1970

M.P. Benjenk

ITALY - Visit of Under Secretary of Foreign Affairs, Mr. Mario Pedini

The Under Secretary of Foreign Affairs of Italy, Mr. Pedini, called on Mr. McNamara on Thursday, October 29. He was accompanied by the Italian Ambassador, Mr. Ortona, and the Economic Counselor at the Embassy, Mr. Rossi, and by Mr. Rota. Mr. Benjenk attended on the Bank side.

Mr. Pedini began the conversation by saying that Mr. McNamara would probably reproach him for Italy's lateness in passing legislation relating to the second IDA replenishment. He would therefore begin by giving him the news that the relevant law had been passed ten days previously.

Mr. McNamara replied that he was very happy to hear this development and he would ask the Under Secretary to convey his thanks to Premier Colombo. Mr. Colombo had been one of the first to emphasize the link between SDRs and development assistance and had been very instrumental in helping to insure the increase in the amount of the Third Replenishment of IDA.

Mr. Pedini then gave some information on the Italian Government's intentions concerning development assistance in the Second Development Decade. A new law was in process to establish Italy's new development assistance procedures and the long-term aim of the Government was to reach within the decade the Pearson Commission target of 0.70% of GNP for public assistance. In view of Italy's experience in this field there would be a considerable proportion of this aid for technical assistance, because Italy felt more and more that without a goodly dose of technical assistance capital assistance would not yield the results expected of it. He asked Mr. McNamara whether it was the practice of the Bank to offer technical assistance as well as capital assistance.

Mr. McNamara replied that there were two types of technical assistance of which the first - namely the supply of individual experts for a variety of tasks - was more within the competence of the UN and the other specialized agencies than of the Bank. There was a second type of assistance, namely the provision of management and skilled technical knowhow, which, as the Under Secretary had stated, was essential to render capital investment profitable and the Bank made it a practice in many of its loans to include technical assistance as part of the loans made.

The Under Secretary asked whether the Bank's loans included provision for new technology, such as radio isotypes for agriculture. Mr. McNamara replied that new technology was included in loans, such as the loan to the Ivory Coast for education which was based on the use of television in class rooms. The Bank had also placed considerable emphasis on the introduction of the new strains of wheat and rice in the developing countries.

The Under Secretary, turning to Africa, gave some details on the plans of the European Economic Community, through FED, for assistance of $1 billion in the Associated States of Africa. He wondered whether cooperation with the Bank was satisfactory. Mr. McNamara replied that it was and that there was close contact between the Bank staff and the staff of FED and the European Investment Bank.

President has seen

Asked by the Under Secretary for any general observations Mr. McNamara had which could be conveyed to the Italian Government, Mr. McNamara stressed that private flows of capital were not a substitute for public funds and he was therefore very pleased to hear of the Italian Government's plans to meet the Pearson target of 0.70% of GNP. The second point he wished to make was that the bilateral donor countries should stress social objectives when giving aid. More and more emphasis needed to be placed on the problems of education, employment, urbanization and population. Since the absolute amounts required for developing countries might not be reached because politically the aid-giving countries might not be prepared to make the necessary sacrifices, it was the more essential that countries should raise the maximum amounts politically practicable, such as those envisaged by the Pearson Commission, and use their aid to introduce greater equity into the social systems of the countries they helped.

cc: Mr. McNamara
Mr. Knapp
Sir Denis Rickett
Mr. Adler
Mr. Sacchetti

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. R.S. McNamara　　　　DATE: October 28, 1970

FROM: M.P. Benjenk MB

SUBJECT: Visit of Mr. Mario PEDINI, Undersecretary Ministry of Foreign Affairs, ITALY

1. Mr. Pedini, a Christian Democratic member of the Italian Parliament, is one of the three undersecretaries in the Italian Foreign Office. He is responsible for commercial matters and for relations with Less Developed Countries. A curriculum vitae is attached. His visit is most likely a courtesy call, and he is making similar calls on American officials of sub-cabinet rank. During the conversation you may wish to raise again the question of Italy's contribution to the second IDA replenishment which is to be ratified by the Italian parliament. Details are to be found below and in the attachments.

2. Economic Background - The Italian economy is suffering from internal problems (see attached memo) and is most likely not in a position to participate in Bank borrowings at this time. Nevertheless, despite these problems, total Italian foreign "assistance" remains large--in excess of one percent of GNP. Most of this assistance is in the form of suppliers' credits. As a result, the overall grant component is small. Further discussion of this point is to be found in the attached memo and briefing paper.

3. Italy and the Bank - Italy has played a large role as a member of the Bank. It has made capital available, has been the Bank's second largest borrower in Europe, and has been an important source of procurement of goods and services for Bank projects in other countries. Italy is a member or observer in all 13 Bank consortia or consultative groups, and 43 of the staff are Italians.

4. Italy has contributed an estimated $143 million in the form of capital and bonds to the Bank's operations, 2.1 percent of the total. On the other hand, Italy has received $398 million in loans from the Bank ($197 million of which have been repurchased). $142 million of these loans are still outstanding. In addition, procurements in Italy by other borrowers have totaled $482 million, or 6.5 percent of total identified foreign procurements under Bank loans. (All figures as of June 30, 1970). Thus Italy has benefited from the Bank out of proportion to its contribution.

5. With regard to IDA, Italy has paid in $48.16 million, 1.8 percent of the total contributions. IDA procurements in Italy were $60.0 million, 4.2 percent of total IDA procurements outside the borrowing country. Italy has agreed to provide another $48.4 million as her share of the Second Replenishment. This has yet to be ratified by the Parliament. When paid, this will raise Italy's contribution from 1.8 percent to 3.5 percent of total contributions.

President has seen

6. Italy has supported the concept of multilateral assistance, and has pledged $97 million to the Third Replenishment of IDA. However, based on DAC figures, official aid in recent years has shifted towards the bilateral (see table in attached annual meeting brief). DAC figures also show a declining annual contribution to the Bank and IDA. These shifts are partly due to the non-payment of Italy's contribution to the Second Replenishment of IDA.

Attachments (3)

Attachment 1

The Honorable MARIO PEDINI, Member of the Italian Parliament, belongs to the Christian Democratic Party.

He was born in Brescia on December 27, 1918.

He holds degrees in Philosophy and Law. He has taught Italian and History and was Assistant Professor of Economics at the University of Parma.

He has been a Member of Parliament since 1953 for the Brescia and Bergamo Districts.

Since 1946 he has held political and administrative positions within the Christian Democratic Party.

During his Parliamentary career, he was a member of the Parliamentary Commission for Internal Affairs of the Chamber of Deputies, Secretary of the Parliamentary Commission for Industry, Vice-President of the Parliamentary Commission for the Budget and State Participation (Government Investment Industry).

He has contributed editorial material to daily newspapers and Italian and international political and economic magazines.

In 1956 he was elected Member of the European Parliament, and currently is a member of the Committees for Energy, Scientific Research and Nuclear Problems, and of the Committees for the Developing Countries and for Economic Relations with non-member countries (.).

He was Undersecretary of State to the Presidency of the Council of Ministers during the second Leone Government (1968). Presently he is Undersecretary of State of the Ministry of Foreign Affairs, a position which he has held since 1969.

(.) not members of the European Parliament.

Attachment 2

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Richard Gregory

DATE: 28 October 1970

FROM: Elinor B. Yudin ebey

SUBJECT: Italy

The Italian economy is recovering from the general strikes of the fall of 1969, which continued sporadically in the first half of 1970, and the resultant economic dislocation. GNP, which had been growing at a 7 percent annual rate, declined by 4.5 percent in the second half of 1969.

Certain of the selected economic statistics in the attached basic data sheet further indicate the extent of that dislocation. Between mid-1969 and mid-1970, for example, minimum wages in industry rose more than 20 percent, while industrial output grew at only 2 percent. Much of the increase in money income was apparently translated into consumption demand, which is reported to have been little affected by strikes. The rate of increase in savings deposits has, moreover, slowed considerably; some savings were sent abroad, seeking to avoid the uncertainties of the Italian economic and political situation. In the second half of 1969, fixed productive investment decreased 13 percent (in volume), compared to a 6 percent increase in the first half of that year. With these pressures augmented by a fairly rapid money expansion and the slow-down in production, prices rose more rapidly between July 1969 and July 1970. In consequence, some reduction in the rate of export growth and a greater increase in that of imports occurred, swinging the current account into deficit (August 1970). A marked improvement in the capital-account reflecting both a greater recourse to foreign capital markets and a reduction in the unauthorized exports of bank notes, did, however, bring about a reduction in the overall balance-of-payments deficit which had appeared in 1969.

The strike affected the public sector as well. Tax revenues through August 1970 were less than expected. The Bank of Italy provided an unusually large share of the financing of the budget deficit. That deficit, has itself grown in recent years, reflecting, mainly, deficits in local authorities' budgets and in the social security system. The large public and semi-public financing needs placed pressure on capital markets, raising interest rates.

A new cabinet, formed last summer by Emilo Colombo, following two cabinet crises, has introduced or promises to propose a series of selective fiscal measures, designed primarily to shift resources to investment and to facilitate investment financing, while avoiding erosion of essential consumption. The government recognizes, too, that the need for domestic reforms - - particularly in hospitals, housing and transport - - is urgent.

• • •

The second table appended here sets out major recipients of Italian grants and Official Development Assistance (O.D.A.) in 1967 and 1968. As only those receiving more than U.S. $ 10 million are identified, the "All

Recipients" figures are <u>not</u> the sum of the recipients shown. Note, too, that private export credits (which are not shown) are by far the most important component of the Italian development assistance, accounting for 71 percent of the total in 1967 and 81 percent in 1968.

ITALY: Basic Data

Area and population

Area	301,200 square kilometers
Total populaton (April, 1970)	53,550,000
Total labor force (April, 1970)	19,429,000
Gross national product per capita (1969)	US$1,520

National Expenditure (Billions of lire, current prices)

	1968	1969
Private consumption	29,995	32,641
Public consumption	6,363	6,876
Gross fixed investment	9,165	10,543
Changes in stocks	190	190
Total domestic demand	45,713	50,250
Exports of goods and services, income received from rest of world	9,119	10,543
Total demand	54,832	60,793
Imports of goods and services, income paid to rest of world	7,689	9,321
Gross national product	47,143	51,472

Selected economic statistics

			1969-1970
Annual percentage increase in:			
Gross national product (at constant prices)	4.7	5.7	n.a.
Gross fixed investment (at constant prices)	7.7	8.2	n.a.
Industrial output (at constant prices)	8.7	5.2	2.1(July-July)
Minimum contractual wages in industry	3.8	7.3	20.2(July-July)
Cost of living index	1.3	2.8	4.6(July-July)
Wholesale prices	0.4	3.9	6.8(July-July)
Retail prices	1.4	2.7	4.7(July-July)
Money and quasi-money (end-of-period)	12.1	11.9	12.6(Q II-Q II)
Money (end-of-period)	12.1	15.7	21.3(Q II-Q II)
Domestic credit (end-of-period)	10.9	14.8	15.4(Q II-Q II)
Savings deposits (end-of-period)	11.9	7.0	1.4(Q II-Q II)

Public Sector (Billions of lire)

	1967	1968	1969
Deficit (-)	-1,201	-2,042	-1,838
Net Borrowing: Lire	1,195	2,031	1,829
(From Bank of Italy)	(-142)	(500)	(1,214)

	1967	1968	1969		January-August a/ 1969	January-August a/ 1970
Balance of payments (in millions of U.S. dollars)						
Exports of goods (f.o.b.)	8,605	10,098	11,641		7,372	8,209
Imports of goods (f.o.b.)	-8,626	-9,050	-11,057		-7,840	-9,701
Travel	1,126	1,112	1,139	)		
Other services and transfer payments	494	467	645	)	1,715	1,000
Balance on current account	1,599	2,627	2,368		1,247	-492
Capital movements	-1,237	-2,076	-3,568		-2,038	48
Over-all balance	362	551	-1,200		-791	-444
International Liquidity reserve position (end of period)	5,463	5,342	5,013		5,163	4,312

a/ Data from Bank of Italy, Supplemento al Bollettino, Import data, c.i.f.; August 1970 data, provisional.

Development Finance Studies Group
October 28, 1970

MAJOR RECIPIENTS OF ITALIAN OFFICIAL ASSISTANCE: 1967 - 1968

RANKED BY AMOUNT OF OFFICIAL AID RECEIVED

(U.S. $ Millions)

	Total Aid (Official & Private)	Grants	O.D.A.	Official Aid	Official Aid as percent of Total Aid
1967					
All Recipients	700.3	2.0	182.1	203.1	29
U.A.R.	40.0	-	40.0	40.0	100
Yugoslavia	40.0	6.0	29.6	35.6	89
Zambia	34.2	-	30.8	30.8	90
Tunisia	37.0	-	30.3	30.3	82
Tanzania	16.0	-	15.5	15.5	97
Turkey	15.0	-	15.0	15.0	100
"Other UNSP all C" 1)	274.1	13.7	-	13.7	5
Sudan	12.0	-	12.0	12.0	100
Ghana	10.8	-	10.8	10.8	100
1968					
All Recipients	855.6	34.2	128.3	162.5	19
Indonesia	49.2	-	49.2	49.2	100
Turkey	20.3	0.4	19.9	20.3	100
Somalia	18.9	14.2	4.7	18.9	100
Greece	27.4	0.3	10.1	10.4	38
Morocco	19.5	0.4	9.9	10.3	53
Algeria	30.3	-	10.0	10.0	33

Note: Ranked by size. Includes those countries that received more than U.S. $ 10.0 in Grants & Loans.

SOURCE: OECD TERMS MATRIX 1967 & 1968

1) Not specified in source.

Attachment 3

BRIEFING PAPER
ANNUAL MEETING 1970

ITALY

Principal Members of Delegation

Mario Ferrari-Aggradi (Governor, Fund)
Minister of the Treasury

Guido Carli (Governor, Bank)
Governor, Bank of Italy

Rinaldo Ossola (Temporary Alternate Governor, Bank)
Deputy General Manager, Bank of Italy

Gaetano Stammati (Temporary Alternate Governor, Fund)
General Accountant of the State - Ministry of the Treasury

Aid Performance

The total flow of development assistance from Italy to developing countries reached $850 million in 1969, a fairly considerable increase over the average of the 1960's (see attached table) and the sixth largest among DAC donors. Indeed, Italy was one of the six DAC countries in 1969 which provided total assistance of more than 1% of GNP. However, the official aid program remains small and disbursements have been stagnant at under $150 million over the past five years.

The largest single part of the flow from Italy is export credits which, including those extended by both public and private sectors, made up 60% of the total flow in 1964-68. The most frequently cited obstacles to an effective Italian official aid program are the fragmentation of responsibility for aid (there is no aid agency); political difficulties connected with government instability; and problems of building public acceptance for aid when the South of Italy itself remains poor. The question of aid administration, and also the establishment of an aid program within the framework of Italy's five-year plan, are believed to be under consideration, but no information is currently available.

The grant element in flows from Italy is well below the DAC average, reflecting a low volume of grants and a high proportion of export credits in the total. Official assistance is concentrated on a fairly small number of countries, in particular Turkey, Yugoslavia, Tunisia, U.A.R. and Somalia. Other official assistance has followed the award of large contracts to Italian exporters such as the pipeline for Tanzania and Zambia.

Attitude to IDA

Italy's recent attitude towards IDA has been generally constructive. It was one of the few major countries which did not raise the possibility of reducing its relative contribution to the Second Replenishment, though it did support other EEC countries in favoring a Second Replenishment at about $375-400 million annually. It has agreed that its contribution to the Second Replenishment may be drawn at an accelerated rate to accommodate the U.S. balance of payments safeguards. On the other hand, more than a year after the Second Replenishment became effective, Italy is the only country which has not ratified its participation in that replenishment. Dr. Rota told us on a confidential basis that he was trying to persuade the Italian authorities to make some sort of interim arrangement for the Second Replenishment, perhaps by the government's obtaining resources from the Ufficio di Cambio for advance payment. But nothing has been heard about this matter since Dr. Rota left Washington in mid-August.

Initially Italy tended to support a rather modest increase for the Third Replenishment, feeling itself bound as a "good European" to an understanding which had been reached between Finance Ministers of the EEC. When it saw that the Netherlands did not feel itself so bound, Italy eventually agreed to support a Third Replenishment of up to $1 billion annually.

Capital Market Prospects

Italy's current account moved into deficit in the first half of 1970 after six years of substantial surplus. This development is partly the result of industrial unrest but also because domestic demand is relatively high in relation to a number of trading partners. The capital account, however, has improved, with a reduction in the outflow of bank notes and with substantial foreign borrowing (amounting to about $1 billion) by Italian public institutions and enterprises. The encouragement given by the Italian authorities to overseas borrowing reflects concern with the balance of payments as well as difficult domestic capital market conditions, where tightening monetary policy and higher interest rates have reduced participation by banks and private non-bank holders. The Italian authorities have indicated their support for multilateral assistance by permitting access to the Italian market for international lending institutions (the EDB has borrowed extensively on the Italian market and the IBRD made an issue equivalent to $24 million in 1961), but current conditions appear unfavorable. One reason for EIB's successful tapping of the Italian market is EIB's continued operations in Italy.

Special Issues

Of special interest to the Italian authorities may be the lending program in Ethiopia and Somalia. Through FY 1970, the Bank had lent $98 million to Ethiopia and nothing to Somalia; the corresponding IDA amounts were $35 million and $9 million respectively. Future operations currently planned are summarized in the attached copy of Table IVa for each country.

The Italian authorities should be urged to do everything possible to secure ratification of their contribution ($48.36 million) to the Second Replenishment as soon as possible.

P & B
9/11/70

ITALY: FLOW OF DEVELOPMENT FINANCE BY CALENDAR YEAR

(US $ million)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969 a/	1970 b/
Official development assistance											
- Bilateral	65	46	61	61	43	29	48	123	122		
- Multilateral	12	14	20	9	5	32	31	31	24		
- TOTAL	77	60	80	70	48	60	78	155	146	130	150
- As % GNP	.27%	.21%	.23%	.18%	.09%	.15%	.09%	.22%	.19%	.16%	.17%
Other Official											
- Bilateral	14	20	19	16	3	25	-24	-3	19		
- Multilateral	15	1	13	-8	-10	8	60	2	-16		
- TOTAL	29	21	31	8	-7	33	37	-1	4	7	
Total Official	105	80	111	79	40	93	115	155	150	137	160
- % Grant Element					55%	33%	52%	39%	43%		
- As % GNP	.31%	.21%	.26%	.16%	.08%	.16%	.18%	.22%	.20%	.17%	.18%
Private											
Investment & Loans	89	149	173	114	62	78	85	77	131		
Export Credits	104	28	107	128	135	95	432	54	270		
TOTAL NET DISBURSEMENTS	298	258	391	321	237	266	632	287	550	848	
- As % GNP	.88%	.68%	.92%	.66%	.45%	.47%	1.02%	.43%	.76%	1.03%	

a/ Provisional

b/ DAC estimate

Source: DAC

Population: 23.7 m.
GNP Per Cap.: $60

IVa. ETHIOPIA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Wolamo Agricultural Devt.	IDA	3.5							
Settit Humera Agriculture I	IDA	3.1							
Settit Humera Agriculture II	IDA				5.0				
Land Settlement	IDA				6.0				
Melka Sadi-Amibara Irrigation	IBRD			10.0					
" " " "	IDA			10.0					
Awash Irrigation I	IDA				5.0				
Awash Irrigation II	IDA					15.0			
Livestock I - Dairy	IDA		5.0						
Livestock II	IDA				6.0				
Coffee Processing	IBRD			8.0					
Telecommunications V	IBRD				6.0				
DFC III	IBRD			4.0					
DFC IV	IBRD					6.0			
Education II	IDA		7.0						
Education III	IDA						15.0		
Power III	IBRD					15.0			
"	IDA					5.0			
Tourism	IDA				5.0				
Roads V	IDA			5.0					
Roads VI	IBRD						10.0		
"	IDA						5.0		
Potash Transportation	IBRD				10.0				
Water Supply - Addis Ababa	IBRD		7.0						
	IBRD		7.0	22.0	16.0	21.0	10.0	41.8	72.6
	IDA	6.6	12.0	15.0	27.0	20.0	20.0	14.9	60.6
	Total	6.6	19.0	37.0	43.0	41.0	30.0	56.7	133.2
	No.	2	3	4	7	3	2	5	18

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Population: 2.7 m.
GNP Per Cap.: $50

IVa. SOMALIA - 5 YEAR LENDING PROGRAM

		($ millions) Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Livestock I	IDA			2.0					
Livestock II	IDA						3.0		
Irrigation	IDA					5.0			
DFC	IDA					1.0			
Education	IDA		3.0						
Port - Mogadiscio II	IDA			7.5					
Road - Berbera-Hargeisa	IDA		7.0						
	IDA		10.0	9.5		6.0	3.0	8.5	20.1
	No.		2	2		2	1	2	5

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10

MEMORANDUM FOR THE RECORD July 1, 1971

From: Denis Rickett

Subject: Conversation between Dr. Guido Carli, Governor, Banca d'Italia, and Mr. McNamara

Dr. Carli called on Mr. McNamara on Wednesday, June 30th, at 4:30 p.m. He was accompanied by Mr. Rota and Mr. Gradi (representative of the Banca d'Italia in New York). Sir Denis Rickett was also present.

Dr. Carli said that in recent weeks his attention had been concentrated on monetary affairs in which he had been working for a common view for the Six. The May crisis in the exchange markets had one positive result in that it had brought problems to the surface which had hitherto been neglected. At the meeting which he was about to attend in Brussels, the Ministers of Finance would be meeting as the Council of the Community and would have before them recommendations by the European Commission on the control of capital movements and the creation of domestic liquidity. The Germans disliked exchange control restrictions on foreign borrowing but were prepared to restrict the use of such borrowings made by their residents.

The control of the Eurodollar market would also be discussed. Central banks were now agreed in blaming this as a source of unwanted funds. So far, they had agreed to stop redepositing, either directly or indirectly in the Eurodollar market, dollars entering their reserves. They also proposed to withdraw funds from the Eurodollar market if and when conditions permitted and to reinvest them in U.S. Treasury securities. These controls on the supply of Eurodollars might, however, be insufficient. If the demand was strong enough, funds might be attracted either from central banks not parties to the agreement, or from the United States itself through an increase in the U.S. liquidity deficit. Controls were therefore being studied on the import of capital and might be put forward in the form of a Community Directive.

A further problem concerned the composition of reserves. All these problems were interlinked and needed a common strategy to deal with them.

Dr. Carli said that he had recently had a meeting with the representatives of the Inter-American Development Bank in Rome. The Banca d'Italia and the Treasury thought that at least part of Italy's capital exports to Latin America should go through the Inter-American Development Bank.

Mr. McNamara, noting this, said that if Italy was in a position to export capital, he hoped that Dr. Carli would consider using the World Bank also as a channel either by permitting a World Bank issue in the Italian market or by repayment of Italian borrowings from the World Bank.

Dr. Carli replied that it was Italian policy to export as well as to import capital according to the position of the balance of payments. In recent years they had been borrowing at short- and medium-term using such borrowing in part to repay long-term borrowings. They were also giving a considerable amount of export credit, which was forced upon them by competition between exporters. He criticized

President has seen

such export credit as not being based on any sound plan which would take into account the relative importance or creditworthiness of different countries. Much of the export credit given was either not being repaid or repaid only with money borrowed from Italy. He was prepared to consider the possibility of making funds available to the World Bank. It was a matter on which he would like to see a common policy adopted by the Six.

Mr. McNamara welcomed this suggestion. The World Bank was already borrowing in the markets of Germany, Belgium, and The Netherlands while the French authorities had said that such a borrowing, while not possible for the moment, might be permitted in the future. The United Kingdom in its recent White Paper on Private Investment in Developing Countries had said that access by the World Bank to the London market would be permitted at an appropriate time.

Dr. Carli reverted to the need for a policy linking the granting of export credit with some degree of surplus on the balance of payments of the country granting the credit. Mr. McNamara referred to the debt study undertaken by the staff of the World Bank which showed the need for some system to monitor excessive recourse to short-term export credit by certain countries. The World Bank was prepared to play a role in this respect but there had been some opposition in the Board in the discussions on the Pearson Report. This seemed to him to be a serious problem which was of interest to many countries. It might be discussed further in the Development Assistance Committee of the O.E.C.D. and also by the European Economic Community.

Dr. Carli said that another important question concerned the policy of industrialization. For example, in which direction should those countries which had a large income from oil sales seek to develop their industry? Should they build up a petrochemical complex or should they develop in other directions?

Mr. McNamara agreed that more work was needed on these questions.

Finally Dr. Carli said that his feeling was that it was necessary to dedramatize changes in exchange rate parities. He had always favoured greater flexibility in exchange rates which might make possible more stability in other factors, such as employment and prices. He hoped to see some progress in this direction within the Six which would obviously become more important if the Six became the Seven or the Ten.

WDC

MEMORANDUM FOR THE RECORD

Meeting with Italian Delegation, September 2, 1975

Present: Messrs. McNamara, Knapp, Baffi, Governor Bank of Italy, Palumbo, Director General Ministry of the Treasury, Ercolani, Deputy Managing Director Bank of Italy, and Rota

Mr. Baffi said that inflation was no longer a major problem in Italy. The real constraint on development was the balance of payments deficit. Italy was now very much an open economy. A total of about 50% of GNP was now being imported and exported. Mr. McNamara's speech had reminded him of the explosion of the towns which exist in Italy. The central Government had to finance current deficits of Italian cities. Therefore no public savings were made at the central level. Mr. McNamara said that the central bank of Italy had performed a miracle for the Italian economy.

Mr. McNamara asked for Italy's support for the selective capital increase. He said that an agreement was required before the Kingston meeting of the Interim Committee. Mr. Baffi said he would do his best.

Mr. Baffi said that he would also do his best to speed up legislation on 4IDA and that Italy was prepared to participate constructively in VIDA.

Mr. Baffi said that Italy looked favorably upon the Third Window.

Mr. Baffi was curious that Mr. McNamara had not mentioned the population problem in his speech. Mr. McNamara said that he would take up the subject again shortly and that he did not believe that the world population would stabilize at less than 10 billion people.

SB
September 8, 1975

MEMORANDUM FOR THE RECORD

SUBJECT: Visit of Dr. Rinaldo Ossola of the Banca d'Italia

Dr. Rinaldo Ossola, Vice Director General of the Banca d'Italia, called on Mr. McNamara this evening. Mr. Rota and I were also present.

Dr. Ossola said that he had come to Washington principally to discuss with the Treasury and the Fund the future work of the Group of Ten. He felt encouraged by what he had heard. He had been apprehensive that Secretary Connally's speech might mean that the U.S. would no longer be interested in the work of the Group of Ten. The meeting which he had had with Mr. Connally that afternoon had reassured him. It seemed that the setting up of the so-called Advisory Committee of Governors or Group of Twenty would be compatible with the continued usefulness of the Group of Ten. Mr. Connally had also agreed that it would be useful to begin discussions as soon as possible on international monetary reform. Dr. Ossola thought that this would be encouraging to the foreign exchange markets where the rates had been under pressure because of the apparent lack of progress since the Smithsonian Meeting.

In reply to a question from Mr. McNamara about the link, Dr. Ossola said that he had always been sympathetic to this idea though most of his European colleagues were not so keen. Even in Europe, there seemed to be some movement, particularly in Holland which in the past had been the strongest opponent.

It was important in his opinion not to inject the problem of the link into the discussion of the next allocation of SDRs. The Managing Director of the Fund had to submit a proposal on this sometime between June and November and discussions should begin in the Group of Ten in June. The question of the link, however, should and could be dealt with in the framework of international monetary reform. The SDR scheme needed to be revised in a number of ways and the rules of allocation could be discussed in that context. The question should, therefore, be kept on the agenda but not for immediate discussion.

Mr. McNamara said that it seemed likely to become a major issue at the UNCTAD conference in Santiago in April. He hoped that some of the representatives of the Group of Ten would be responsive and would be willing to see the matter studied. The Group of Twenty Four were meeting in Caracas on April 5th and 6th and would certainly press this issue. The Germans intended to be represented at Santiago by a minister, at first by Prof. Schiller and later by Dr. Eppler. It would be very helpful if Signor Colombo would speak to the Italian Minister of Foreign Affairs and ensure that the Italian representative would follow the line which had been advocated by Signor Colombo himself in the past. Mr. McNamara said that he thought that it would be necessary for him to make some reference to this issue in his own statement.

Dr. Ossola concluded with some remarks on the need for E.E.C. not to become an inward-looking bloc but to keep up an active exchange of ideas with other countries.

President has seen

D. H. F. Rickett
March 17, 1972

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 30, 1971

FROM: Denis Rickett DMR

SUBJECT: Meeting with Governor Carli

I understand that Governor Carli is coming to see you this afternoon. Mr. Rota told me this morning that he would be present at the meeting and I asked him if he had any suggestions as to what should be discussed. He mentioned certain ideas about the pre-payment of Italian indebtedness to the Bank or, alternatively, of the purchase by the Banca d'Italia of medium-term lire bonds which had been discussed between him and Mr. Aldewereld. I understand, however, from Mr. Aldewereld that you do not yourself wish to put those ideas to Carli this afternoon.

2. My own feeling would be that it would be best to allow the conversation to remain on a fairly general level but that some reference might be made to the prospects as we see them for Congressional action on the Third IDA Replenishment. We could refer to the fact that the Banking and Currency Committee will be holding hearings on Tuesday next but that the matter is unlikely to come to the Floor of the House until after the summer recess. You might further wish to add that, in your view, there are still good prospects for the passage of the legislation before the end of the calendar year.

3. This might lead on naturally to some reference to the chances of action by the Italian Parliament. It would be interesting to know what Carli's view is on this and he has some responsibility on the matter since he is the Italian Governor for the World Bank.

4. Finally, you could, if you think fit, mention that we are already assured of advance contributions from Canada, Denmark, and Finland and that we have hopes of further contributions from others.

5. I should perhaps mention that when I was in Basle for the BIS Meeting, Sgr. Ossola of the Banca d'Italia mentioned the possibility that, if the legislation could be approved within the next month or two by the Italian Parliament, the Italian Government might be willing to make an advance contribution in cash. I think he had in mind that this would be some compensation for the rather unfortunate performance of the Italians over the Second Replenishment in which they were the last government of all to ratify.

CC: Mr. Aldewereld

President has seen

MEMORANDUM FOR THE RECORD

SUBJECT: Italy

I spoke this morning to Dr. Ossola of the Banca d'Italia. I said that according to my information (which admittedly was now some weeks out of date) Italy had not yet applied to take up the special increase in its Bank subscription to which it was entitled. We hoped that they would do so and that, like other Part I countries, they would make the full 10% available as soon as possible.

Dr. Ossola said that he thought that action on this matter had already been taken but he would look into it when he got back to Rome.

I also talked briefly with him about the Italian notification for the Third Replenishment. He said that he would continue to press for early action on this but, unfortunately, the matter was in the hands of the Italian Parliament. He thought there might be anything up to a year's delay but that if this happened they would try and make up for it by paying the instalments due from them up to that date in cash.

D. H. F. Rickett
September 29, 1971

cc: Mr. Knapp
Mr. Cope
Mr. Adler

President has seen

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Anders Ljungh

DATE: March 16, 1972

FROM: Denis Rickett

SUBJECT: Dr. Rinaldo Ossola

You asked me for a note on Dr. Rinaldo Ossola who is to see Mr. McNamara at 5 p.m. tomorrow.

AL 3/16

2. Dr. Ossola is now Vice Director General in the Bank of Italy. He is, thus, third in the hierarchy, ranking after Dr. Carli, the Governor, and Dr. Baffi, the Director General. He is, however, generally regarded as the most likely successor to the Governor when the time comes for him to retire.

3. Dr. Ossola is also Chairman of the Deputies of the Group of Ten.

4. Earlier in his career in the Bank of Italy, Dr. Ossola was Head of the Research Department and, subsequently, Chief of Foreign Operations. He has been the principal representative of Italy both on Working Party III of the O.E.C.D. and on the Deputies of the Group of Ten for some ten years.

5. Dr. Ossola would, I think, be generally regarded as one of the two or three leading experts in the international financial field. He recently published in the Princeton International Finance Series an essay entitled "Towards New Monetary Relationships", a copy of which I attach.

Attachment (as stated)

President has seen

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ESSAYS IN INTERNATIONAL FINANCE

No. 87, July 1971

TOWARDS NEW MONETARY RELATIONSHIPS

RINALDO OSSOLA

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS

PRINCETON UNIVERSITY

Princeton, New Jersey

This is the eighty-seventh number in the series ESSAYS IN INTERNATIONAL FINANCE, *published from time to time by the International Finance Section of the Department of Economics of Princeton University.*

The author, Rinaldo Ossola, is Deputy General Manager of the Bank of Italy. He participated in the arrangements for the European Payments Union. At present he is Chairman of the Deputies of the "Group of Ten" and a member of the Economic Policy Committee of the Organization for Economic Cooperation and Development and of the Monetary Committee of the European Community.

The Section sponsors the essays in this series but takes no further responsibility for the opinions expressed in them. The writers are free to develop their topics as they wish. Their ideas may or may not be shared by the editorial committee of the Section or the members of the Department.

PETER B. KENEN, *Director*
International Finance Section

ESSAYS IN INTERNATIONAL FINANCE

No. 87, July 1971

TOWARDS NEW MONETARY RELATIONSHIPS

RINALDO OSSOLA

INTERNATIONAL FINANCE SECTION
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TOWARDS NEW MONETARY RELATIONSHIPS

This essay tries to explore the possible impact that certain decisions (some taken in the course of the last few years, others likely to be taken in the not too distant future) may have on the evolution of the international monetary system. It gives special attention to the monetary relations between the United States and an enlarged European Economic Community (EEC), and between these and the emerging countries. An attempt has been made to express these issues in the framework of the established order of the International Monetary Fund (IMF).

The international monetary system, as it works today, can truly be said to be centered on the IMF. It is characterized by the following essential elements: (1) complete nondiscriminatory freedom of current payments and transactions; (2) the discretionary power to control capital movements provided the freedom of current payments and transactions is not prejudiced (member countries have less and less availed themselves of this power, especially after 1958, when external convertibility was reestablished by most of the industrial countries); (3) stable parities, fixed in terms of gold at realistic levels and in agreement with the IMF; (4) par values, which in case of fundamental disequilibria can be adjusted after consultation with the Fund and, normally, after the Fund's concurrence; (5) fluctuation of exchange rates which for spot transactions can vary within 1 per cent on either side of the par value—a limit which may be exceeded, but only to a reasonable extent, for forward transactions.

In general, the currencies of all Fund members have been put on an equal footing. The U.S. dollar, however, has obtained a special status as the result of various factors which have led to its establishment as the main currency in which international trade is transacted, in which international reserves are held, and which central banks employ when intervening in the foreign-exchange markets to stabilize their own currencies. The IMF requirement that currencies not deviate by more than 1 per cent from their official par values in terms of gold or, in practice, the dollar has the logical result that related currencies, such as those of the EEC countries, can diverge from one another by as much as 2 per cent (when, for example, currency A appreciates by 1 per cent relative to the dollar while currency B depreciates by 1 per cent relative to the dollar).

Therefore, it is technically possible under the IMF rules for the "fixed" exchange rate between two EEC countries to change by up to 4 per cent (as currencies A and B exchange their positions at the limits of the narrow band around their dollar par values).

However, all the EEC countries and almost all the OECD (Organization for Economic Cooperation and Development) countries keep their margins of fluctuation vis-à-vis the dollar within 0.75 per cent. Consequently, the exchange rate between two EEC countries can change up to 3 per cent, that is, intra-EEC exchange-rate fluctuations can be twice as large as those vis-à-vis the dollar. Moreover, parity regulations among the EEC countries are stricter than those of the Fund. According to the Rome Treaty, each country must consider its own exchange-rate policy as a matter of common interest and, according to a decision taken in 1964, prior consultation among member countries is required if a country wishes to change its par value. (Consultations under these agreements took place in August and October 1969 on the occasions of the devaluation of the French franc and the revaluation of the Deutschemark.)

The above has special significance, in view of the fact that historical experience shows that the development of a common-trade area inevitably leads to a common-currency area. Vagaries of exchange-rate differentials affect price differentials, leading to competitive advantage and disadvantage related not to market or quality conditions, but to differences in monetary values beyond the producer's or trader's control. The history of the United States, which may be said to have been an antecedent of today's common-trade areas and integrated markets, shows how pressure from economic forces eventually leads to monetary unity. Even though the various parts of the United States were all joined through the gold dollar as the common currency, up to the time of the Civil War, there were wide differences in the costs of transfer of funds—either because notes issued by state banks circulated at varying values, depending on prestige or risks, or because the time element in the shipment of funds led to considerable escalation of interest rates between the financial centers and the rest of the country. A major factor in the introduction of a "national" banking system a century ago was a recognized necessity of introducing a uniform currency that would command acceptance and prestige and maintain a single par value throughout the nation. This, however, still did not alleviate the differential cost of shifting banking funds (through drafts or checks) subject to commissions and of changes related to the time element involved in their transfer. For this reason the Federal Reserve was charged, from its establishment, with the task of providing "exchange at par" for banking transfers throughout the nation. The experience of the United States would seem to show that exchange-rate differentials, small as they may be as a marginal price factor, have a larger impact on business profits, which is sufficient to bring pressure for their elimination in order to strengthen economic ties through greater efficiency and lower cost in the movement of financial and real resources.

EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM

The International Monetary Fund has a significant influence on the monetary relations among its 117 member countries (almost the entire international community with the exclusion of most socialist countries). The Fund has indeed been able to shape its objectives in accordance with the changing demands of the last 25 years and today it is undoubtedly an instrument fully capable of coping with the significant developments that are in the making. Actually, since Bretton Woods, the international monetary system has been integrated with new instruments which are either directly linked with the Fund or make the Fund more effective by supplementing the temporary assistance it provides to countries in balance-of-payments difficulties. Here are some examples: (1) the General Agreement to Borrow, whereby the major industrial countries have extended to the Fund credit facilities amounting to 6 billion dollars, thus relieving pressure on the Fund's own resources; (2) reciprocal monetary arrangements for lines of credit ("swaps") between the Federal Reserve Bank of New York and the central banks of the major countries, which now amount to well over 11 billion dollars; (3) the establishment, in case of need, of regional credit facilities for the defense of important currencies other than the dollar; (4) short-term-credit arrangements among the EEC central banks for a total amount of 2 billion dollars; and (5) the Fund's compensatory financing and buffer-stock arrangements for the needs of the emerging countries. If one adds all these facilities to the Fund quotas, now increased to over 28 billion dollars (or over 10 per cent of the annual exports of all countries), it is possible to judge the strength of the defenses which protect the system against temporary excess of countries' payments for imports over earnings from exports, and from all but the worst speculative movements of money between countries.

While these enlargements of sources for supplementing countries' holdings of foreign-exchange reserves are important, they have not been considered sufficient. Other measures have been taken, or are under consideration, which will provide further evolutionary impulses to the system. The changes include:

(1) the creation and subsequent activation of Special Drawing Rights

(SDRs), whereby the principle has been introduced that the reserve assets needed to cope with the long-term need for unconditional international liquidity must be created by deliberate action and in a non-inflationary way, rather than as a result of gold mining or of payments deficits of the United States;

(2) the Washington Agreement of March 1968, which sanctioned the separation between monetary gold and gold as a commodity, as well as the December 1969 agreement between the IMF and South Africa, which, although it reduced the degree of separation, established that newly-mined gold will enter into official reserve holdings on the basis of Fund decisions;

(3) a development that may have a great significance is the decision taken on December 1969 at The Hague by the Community heads of state and of government aiming at creating within the next ten years an Economic and Monetary Union. (Negotiations for admission into the EEC of the United Kingdom and of other candidate countries have been resumed in recent months, after the fruitless efforts of 1964. These now have much better chances of success as a result of both a softening of certain national positions within the EEC and a more decisive political will on the part of the applicant countries.);

(4) of major significance for the mechanisms of international trade, the proposals aimed at introducing into the international monetary system a moderate degree of exchange-rate flexibility, as indicated in the September 1970 Report of the Executive Directors of the Fund.

These are the most meaningful innovations that can deeply transform international monetary relations, albeit with the gradualism necessitated by political considerations, especially when the transformations imply the transfer of powers and responsibilities from the national to the supranational sphere. The International Monetary Fund will continue to be the indispensable moving force in this evolutionary process; its relations with individual countries will gradually be replaced by relations with groups of countries, free-trade areas, and economic communities—that is, with monetary areas wider than the present boundaries of a state.

Further evolutionary impulses to the system will also come from the following developments: the increasing interdependence of national economies stemming, *inter alia*, from the acceleration of technological progress and from the numerous transnational mergers of major corporations and banks; the increasing influence that economic policy decisions taken by one country, especially if it is a major one, exercise on other countries; the accelerating expansion of the Eurodollar market where important internal multiplier effects are becoming increasingly evident. These developments, combined with the continuous rise in

private-sector financial assets, have greatly increased the interest sensitivity of capital, further complicating the adjustment process.

FUTURE ROLE OF SDRS

When considering innovations, one should begin with the Washington Agreement of March 1968 and the creation of SDRs. These two events have set in motion an irreversible process whereby the monetary system departs from the "gold-exchange standard" by gradually reducing—and eventually eliminating—the monetary function of gold in the system and tending to diminish the reserve role of the dollar.

During the last decade the share of gold in total reserves has continuously decreased, since almost all newly-mined gold has been used to meet industrial needs and other demands. Accordingly, monetary authorities have tended to use less and less gold, with external disequilibria being financed mostly by selling foreign exchange, activating swap arrangements, and utilizing Fund Reserve Positions and Fund credit facilities. Gold has been sold only as a last resort—a somewhat paradoxical end for what has traditionally been considered the most liquid reserve asset.

To the extent that SDRs gradually become the main source of liquidity for the system, as well as the largest reserve component (such a situation should materialize within 10 to 15 years, if SDRs continue to be created at the present rate), and to the extent that prices continue to increase, monetary gold will decrease in relation to goods and services. This contraction should not be compensated for by increasing the official price of the metal, but by creating SDRs in the amounts needed for international trade and transactions.

In the longer run, as industrial uses inevitably grow, equilibrium between the demand for and supply of nonmonetary gold could thus command increasingly higher market prices, up to the point where the difference from the official price would induce amendment of the Washington Agreement, allowing monetary authorities to finance balance-of-payments deficits by selling gold directly on private markets. The anticipation of such profits on sales of gold might seem to be an inducement to central banks to hold on to their gold stocks or to acquire more gold on the free market. However, the expectation of an increase in the long-term price of gold on the private market may not lead to such behavior, because the expected earnings from the interest income obtainable from foreign-exchange holdings or SDRs may be higher. In other words, if SDRs continue to be a valid instrument, the monetary system will have truly been endowed with a superior substitute for gold.

The experience of the facility's first year is very encouraging. Under

Fund surveillance the great majority of members that have utilized SDRs have done so in an appropriate and prudent way. For the evolution towards reliance on SDRs as the expanding reserve component to take place—which I believe would be highly desirable—it is necessary that the monetary authorities continue to have faith in the validity of this new instrument. Especially, they must trust that SDRs will meet the global, long-term need for international liquidity in a rational manner, that is, independently from events such as gold production and balance-of-payments deficits which have little or nothing in common with these needs. Unlike gold and dollars, the creation of SDRs is under international control, and international liquidity can be increased without resorting to destabilizing changes in the price of the reserve instrument. Furthermore, SDRs are the only instrument whose production does not absorb real resources. One must point out, however, that among European monetary authorities the conviction is spreading that there should not be a second activation of SDRs in the near future (or, at least, any such activation should be very small, not to say symbolic). This conviction stems from the considerable increase which has taken place in official dollar reserves during 1970, an increase which is moreover considered likely to continue in 1971.

These are of course complex issues, which those who determine the amount of new SDRs will have to face. One question is whether the need for international liquidity should be measured on the basis of net rather than gross reserves. For example, an increase in reserves in the form of official holdings of dollars has its counterpart in a deterioration of the American liquidity position. (Holdings of SDRs, gold, and so forth, by the United States may be unchanged, but its liabilities to other governments in the form of dollars—liabilities which it may be obliged to pay off with gold or SDRs—may have increased.) Even if gross reserve assets should be the correct concept, a grant of SDRs would not necessarily raise gross reserves of the United States; instead, it might induce reluctant holders of dollars to oblige the United States to use up some of its newly-allocated SDRs to buy up some of those undesired dollars.

The preceding discussion has assumed that SDRs will succeed in establishing themselves as a major component of international reserves. It was indicated above that there is some opposition to this belief. However, the success of the anti-SDR thesis, which could be facilitated by the persistence of large American deficits, would indeed be a calamity. Paradoxically, for a time it would even cause the establishment of a dollar standard, because central banks would be forced to accept the surplus dollars offered by the United States in payment of her deficits.

In that eventuality, two hypotheses are possible. The first is that gold would again become, although only temporarily, the basis of the system; and for gold to serve this purpose its price would have to be raised. However, because gold does not yield interest, reserves would very soon tend to be converted back into a credit asset—most probably dollars. We would then have come full circle, and there is general agreement that it is always better to run straight than in the best of circles. It is not difficult to forecast that in such circumstances recurring crises would affect the major currencies.

The second hypothesis is that gold sales might be suspended by the U.S. Treasury, owing to massive conversions by foreign monetary authorities. The consensus is that, if the United States were to take such a step towards a *de facto*, if not indeed a *de jure*, dollar standard before the European countries had made substantial progress on the road to monetary union, it would almost certainly induce conflicting reactions among the EEC countries. This would set in motion a process of disintegration within the Community, which would soon require the imposition of severe exchange controls. A long period of monetary disorder, similar to that which characterized the twenties and the thirties, would thus begin.

For these reasons, one must hope that the anti-SDR thesis will not succeed, although one cannot exclude the possibility. Even in the early stages, the smooth continuation of the SDR system, especially if holders of this asset were to be rewarded with an interest rate higher than the present 1½ per cent, would have the advantage of increasing the desirability of this asset. While this would mean that the role of the dollar as a reserve currency would be progressively reduced, it would also imply that the dollar could keep the function of an intervention currency (possibly together with the other intervention currency that might emerge from the European Economic and Monetary Union) and would increase its role as a vehicle currency.

ECONOMIC COOPERATION WITHIN EUROPE

Economic and Monetary Union

The second order of events liable to affect deeply the structure of international monetary relations in the near future is represented by The Hague decisions of 1969, the Werner Plan and the EEC Commission proposals, in addition to the beginning of the negotiations for the admission of the United Kingdom into a rapidly changing Community.

The final objectives of the Economic and Monetary Union can be briefly summarized as follows: free movement of labor, trade, services and capital so that economic objectives can be pursued on the EEC scale rather than at narrower national levels; full, irreversible currency convertibility; elimination of intra-EEC margins of fluctuation; irrevocable fixing of intra-EEC par values in order to reach the *de facto*, if not the *de jure*, creation of a single currency to be jointly managed by the Community central-bank system; transfer from the national states to the Community of responsibility over economic matters such as the state budget and the budget of the rest of the public sector, internal liquidity, credit policies, the capital market, external monetary policy, and regional and structural policies. The transfer of economic responsibilities from the states to the Community presupposes that the center of decision-making (which is likely to be the Ministerial Council at first, and the Commission later) will be politically responsible to a democratically elected European Parliament. A refusal to make such political choices by considering them utopian may lead to an even more dangerous utopianism, namely, that Europe can be built by means of a few clever technical schemes. Saying that one should begin directly with the first phase of the work without worrying about the institutional problems and political decisions involved is as realistic as beginning a long and costly trip without knowing the destination.

The first phase of the realization of the Union should begin as soon as the EEC Ministerial Council takes a decision on the Commission's proposals. The first meeting took place in mid-December 1970 and the second one was held in early February of this year; the views which were exchanged among the EEC financial ministers and central-bank governors in connection with the recent Arnhem meeting give rise to some optimism about the final outcome of the negotiations.

The first phase will last three years and will cover events of great moment, such as:

(1) reduction of fiscal barriers within the Community (lessening of differences in tax rates and of the rates of value added and excise taxes, harmonization of tax rates and the tax base applicable for fixed-income financial assets and dividends, harmonization of corporate taxes, complete lifting of controls on intracommunity travel);

(2) free circulation of capital within the Community (introduction and gradual increases in the maximum sizes of bond and stock issues that private and public enterprises of one EEC country can make in another EEC country, quotation on the stock exchange in one or more EEC countries of stocks and bonds issued in another EEC country, abolition of residual exchange controls within the Community);

(3) strengthening of the coordination of short-term economic policies, especially budget policy in the framework of guidelines set out for medium-term economic policy;

(4) progressive adoption of common positions in economic relations with countries outside the Community and with international organizations. In particular, as a rule members should not avail themselves individually of any greater flexibility of exchange rates that might be introduced into the international monetary system;

(5) during the first phase, members should accept a small and experimental reduction of the fluctuation margins of their currencies, that is, intra-EEC margins should be narrower than those resulting from the application of margins stipulated vis-à-vis the U.S. dollar.

As regards the latter point, it would be very advantageous, at least during the first phase, to have a widening of the margins of variation in the rate of exchange established with the intervention currency (the dollar)—for example, from the present ± 0.75 per cent to the full 1 per cent permitted by the present Fund Articles. This widening of exchange-rate variability vis-à-vis nonmembers of the EEC would accompany a reduction of the intracommunity margins (for example, from the present ± 1½ per cent to ± 1 per cent). On the one hand, this would also contribute to the objective of further differentiating the Community system of exchange rates vis-à-vis the dollar, a clear reversal of the present relationship of the EEC currencies to the dollar. On the other hand, it would have the merit of still allowing the monetary authorities of the EEC a margin for maneuver, which recent events have indicated might be quite useful.

Success in meeting this double requirement—each member currency being permitted to diverge from its par with the dollar by no more than 1 per cent but also being limited to a divergence of no more than 1 per cent from its par exchange rate with any other member currency—will require closer intra-EEC cooperation. In practice, the daily management of members' dollar exchange rates would be coordinated by central banks defining the so-called "Community level" of the dollar. The price of the dollar in each of the markets of the Community would not be allowed to deviate from this level by more than a percentage equivalent to half the width of the fluctuations allowed for the Community currencies. The band between the upper margin and the lower margin would fluctuate between the absolute limits applicable to the dollar according to the fixing of the "Community level." Thus, if the EEC decided on an average of ½ per cent appreciation above dollar par values, a member country would be permitted to fix its dollar rate anywhere between the par level itself and a level that was appreciated 1 per cent above par.

One should not minimize the difficulties that might arise in obtaining agreement among central banks for fixing the Community level of the dollar any time one Community currency became strong while another became weak. If this case should concern two important countries, there might be a conflict over both the size and the direction of change.

Finally, the possibility must not be excluded that, during the period of construction of the Economic and Monetary Union, exchange controls for capital movements might be temporarily necessary at the Community borders. This would perhaps make it easier to secure the entry of applicant countries on terms acceptable to the present members. Moreover, by reducing the problem of destabilizing capital movements to and from nonmember countries, such exchange controls would permit member countries to concentrate their efforts on the liberalization of capital movements within the Community area.

The first phase should last three years (1971-73). No precise schedule has been arranged for the other phases, which are to be completed within the decade, because it was felt that a certain flexibility, based on the experience acquired as this goal is approached, will be needed. In this connection, one should underscore the agreement among members that progress in monetary integration must depend on parallel progress first in harmonizing and later in unifying economic policies. However, it must be clearly understood that, sometime during the formation of the union, a "qualitative jump" will be necessary to pass from the phase of coordination to that of unification of economic policies. This will be possible only if present political relationships are modified. Until that time, the freedom of member countries to make individual par-value adjustments should be protected. In particular, as far as par values are concerned, the process of unification described above should go through a certain number of stages which may be briefly summarized as follows:

(1) Initially, there would be freedom to change par values within the present institutional framework—and this freedom is already qualified by the need for consultations provided for under current Community decisions. These could eventually be strengthened further.

(2) Later, variations in par values would be conditional upon Community decisions to be taken by a special majority. (This stage could begin only following a substantial transfer of authority in matters of economic policy-making from the national level to the Community level.)

(3) Finally, the possibility of changing par values vis-à-vis other members would be eliminated.

European Reserve Fund

At this point, some brief comments are in order about the objectives, structure, and operations of the European Reserve Fund, the creation of

which was decided at the 1969 meeting at The Hague. Currently there are many uncertainties about the objectives such an institution should pursue. Although the targets have been described in recent Community documents in different ways, the European Reserve Fund should be considered as the forerunner of a Community system of central banks (something like the Federal Reserve Board of the United States) to which the following functions could be entrusted:

(1) Until substantial progress in constructing the Union has been made, this Reserve Fund should administer the system of short-term monetary cooperation which was agreed upon by EEC countries in February 1970; it should facilitate the intervention of national monetary authorities in foreign-exchange markets, and aid in the formation of a common reserve policy. At the end of the process, when a single EEC balance of payments would be meaningful, all EEC foreign-exchange reserves would be entrusted to the European Fund.

(2) Once the process of unification has progressed sufficiently, the Reserve Fund should administer the reciprocal monetary agreements between the EEC countries and the Federal Reserve. Above all, it should create a European unit of account (EEC unit) which could be utilized by nonmember countries for pegging their own currencies or for acquiring the currencies needed for their interventions in the foreign-exchange markets, and, eventually, as a reserve currency. Regarding the latter, it should in fact be assumed that many outside countries, in the face of the formation of an integrated economic area that would be their main trade partner, would be induced to link their own currencies to that of the European monetary area. Other countries might desire to hold EEC units of account for the sole purpose of diversifying their reserves. The gradual centralization of reserves, as well as the formation of a European unit of account, could begin by having each member country deposit with the European Fund a portion of its reserves (gold, SDRs, dollars). It would receive in exchange an equivalent amount of EEC units, which could be used in transactions with outside countries to whatever extent the latter were willing to accept.

In due time, the resources of this Reserve Fund could be increased if the monetary authorities of countries not members of the Community exchanged their gold and foreign currencies (including the EEC currencies) for EEC units. Its resources could also be enlarged by the gradual increase of the amounts of national reserves deposited with the Fund by the member countries, and its size might later be expanded by issuing EEC units against those sterling balances which the authorities of the sterling area might desire to convert into other assets. In the transitory period leading to the establishment of a single currency, the European

Reserve Fund could utilize its gold and foreign exchange to make short-term loans to member countries, thus assuming a function presently entrusted to the short-term support system of the EEC.

The European Reserve Fund would evolve gradually into an EEC system of central banks which, as far as decisions on internal monetary policy are concerned, would be responsible for the money supply, interest rates, and decisions on lending to public and private sectors. The system would also be responsible for intervening in foreign-exchange markets and for managing the reserves of the Community.

Step by step, the European units of reserve issued by the Reserve Fund, through interventions effected in foreign-exchange markets, would also be held by commercial banks, a process which could be facilitated by the monetary authorities offering a money-market asset in which to invest at remunerative rates. Consequently, through an evolutionary process different from the one that led to the dollar and the pound playing the role of intervention currencies, a new intervention currency would emerge. At first, it would have an intermediate character between SDRs held only by monetary authorities and the dollar (held by monetary authorities, commercial banks, and private holders). The new instrument would circulate, at least in the beginning, only among monetary authorities and commercial banks. In the final stage, the EEC units would become the EEC common currency and would end up being exchanged between businesses and individuals, replacing national currencies.

This process of formation of an intervention currency might be considered unnatural insofar as it does not follow the traditional route, namely, of being first used by commercial operators, and held by commercial banks before being included in the reserves of central banks. In this connection, however, one should not forget that the process of SDR formation was at first also considered unnatural. It was said, with irony, that this was a reserve created out of nothing, brought to life by a magic wand, made out of thin air. Yet it seems to have already come into its own.

Thus, on the whole, there is no reason why there should be only one currency as "reserve" and "carrier" instrument. On the contrary, alternate international currencies have been the rule rather than the exception in economic history. There were for many centuries gold and silver, and the elimination of silver still brought pressure for its remonetization as a supplement to gold as the latter grew relatively scarce well into the twentieth century. The ending of silver as the partner of gold gave way to another alliance of gold and sterling, with their interchangeability made possible through the London market and the Bank of England. From the First World War through the fifties both the United States and the United Kingdom shared in supplying the rest of the world with reserve and intervention currencies—the dollar and sterling. In this interwar and immediate postwar period, other countries could relate themselves to either one or the other of these two leading countries and currencies, or both, depending on the relative advantage of one or the other in terms of their needs in commerce and their access to credit and capital markets. Many countries remained tied to sterling long after it had lost its "key-currency" position, because of the ready availability of financing from the London market, confirming the lasting usefulness of a currency that has gained an accepted position and role in the world's economy.

It goes without saying that the coexistence of two currencies meeting reserve and intervention needs would require continuing and mutual cooperation. These currencies would be interdependent and interconvertible, since it would be assumed that the Common Market would continue to hold and add to its dollar reserves and the United States would correspondingly acquire and add European monetary units to its reserves. This process has been, in fact, going on since the early sixties, when the Federal Reserve began to hold larger net positions in foreign currencies. In the light of relations between the United States and the United Kingdom, when sterling and dollars shared the reserve and intervention function for third countries, this coexistence of alternative currencies provided an option for many countries, whether in the Western Hemisphere or in the Commonwealth, to acquire and hold either dollars or sterling. There should not be any reason why such a twin-currency arrangement should work less smoothly between the Common Market and the United States than it did between the United Kingdom and the United States. On the contrary, the growth of economic strength of the Common Market, including the United Kingdom, the larger role of trade and investment flow between the two areas, and close political ties should all be expected to strengthen present relations and facilitate monetary and financial adjustment, as it becomes necessary in the course of events.

ENTRY OF THE UNITED KINGDOM INTO THE EEC

It is beyond the scope of this paper to examine the monetary and financial problems that arise in connection with the entry of the United Kingdom into the Community, problems deriving especially from the commercial and financial relations which link the United Kingdom to other areas.

Upon the United Kingdom becoming part of the Community, the pound's margins for exchange-rate fluctuations around par should be equal to those of the other EEC currencies. As far as changes in par values are concerned, during the transitional period, the United Kingdom should have equal rights and responsibilities with all the other EEC members, until the day when intra-EEC parities are irrevocably fixed.

A problem which is very important from the point of view of future international monetary relations is that of the fate of sterling liabilities. The Basle agreement of September 1968 will probably be renewed this year, hopefully with the understanding that British arrangements with sterling-area countries will contain a limitation of the dollar guarantee to a ceiling expressed in absolute figures and/or a reduction of their interest rate to the level of the U.S. Treasury Bill rate. The agreement has without doubt been an efficient instrument for neutralizing the effects upon Britain's reserves of the fluctuations of sterling holdings of countries belonging to the area. After the expiration of this agreement and the consequent lapsing of the exchange guarantee covering them, sterling assets officially and privately held by sterling-area countries could be transformed, under agreed terms, either into a world asset—for example, a special issue of SDRs—or a Community asset, through conversion into EEC units. However, sterling balances of official and private holders in countries not belonging to the sterling area should continue to remain a responsibility of the United Kingdom to the issuer country, as is the case of the short-term indebtedness of the other Community members. It should be added that the improvement in the British balance of payments, on one hand, and the constant reduction of the proportions of sterling reserves to total world reserves, on the other hand, allow us to suppose that this type of indebtedness will soon cease to be the distressing problem it has been in the past.

INCREASED FLEXIBILITY OF EXCHANGE RATES

A third order of events susceptible of influencing the evolution of the international monetary system consists of the proposals contained in the 1970 report of the IMF Executive Directors, which aimed at introducing moderate exchange-rate flexibility into the international monetary system. It is not necessary to go into the details of these proposals, which are very well-known. Suffice it to say that, taking them as a whole, their supporters believe them useful for smoothing the process of exchange-rate adjustment. Timely adjustments, and hence the correction of fundamental disequilibria by smaller parity changes than have normally occurred in the past, would replace delayed and massive variations of the exchange parities, often preceded by disruptive conditions. Where no basic changes in parities were needed, temporary flexibility of the exchange rates would allow the impact of capital movements to be absorbed by exchange-rate fluctuation, rather than let it be exerted on reserves and therefore on the volume of internal liquidity. Those who

are opposed to these proposals fear that such innovations will open the way to competitive devaluations and unchecked exchange-rate fluctuations. Within the EEC, it is also feared by some—with small foundation, I believe—that member countries or candidates might avail themselves individually of these innovations, thus seriously jeopardizing the process of Community integration.

A joint position of the Six on this problem will not emerge until after the agreement on the Economic and Monetary Union. Should the Six agree on a moderate degree of flexibility, they would do so subject to two precise conditions: first, that the introduction of a moderate degree of flexibility in the system should take place within the framework of the present Articles of the Fund (in fact, I doubt that at present there exists a majority of the Fund's members in favor of changing the Articles); and, second, that the EEC countries should only avail themselves jointly of the new facilities, especially as regards wider margins—but not before they have reached a sufficient degree of economic cohesion.

All told, such innovations will permit the opening of a new chapter in monetary relations between the United States and Europe in a not too distant future. In the report published in 1963 under the auspices of the Brookings Institution, the opinion was expressed that "the best alternative to a system of fixed rates with provision of increasing liquidity would be a modified system of flexible exchange rates consisting of a dollar-sterling bloc and an EEC bloc. There would be relatively fixed rates between them. Adoption of this system would imply cutting the tie between gold and the dollar." (*The U.S. Balance of Payments in 1968*, p. 259).

EMERGENCE OF NEW CURRENCY BLOCS

Much has changed since then. The blocs are shaped differently. A larger provision of liquidity is being arranged, one that seems compatible with a certain increase of exchange-rate flexibility. The latter can or, rather, must coexist with the preservation of a link of the dollar to gold or to some other internationally accepted standard. It remains true that, if Europe is to be capable of making progress on the path of the economic and monetary union, the best arrangement of its external monetary relations could consist in allowing wider fluctuations of the exchange rate between its currency on one side and the dollar on the other and timely adjustments of the par value in case of emerging fundamental disequilibria. It should be noted that as trade with nonmembers of the EEC shrank in relation to the gross national product (because of the formation of the EEC currency area plus the areas which would inevitably gravitate towards the EEC), the inconvenience of even a large fluctuation of the exchange rate would lessen. The domestic disruption from rate changes would in fact become quite small, for the ratio of extra-bloc trade to GNP would probably shrink to the very low level it has reached in the United States.

In May of 1970 at a conference in Geneva, Robert Roosa, discussing the developments which are likely to occur in international monetary relations, did not exclude the possibility that three monetary centers would join the dollar: an EEC currency, the yen, and a convertible ruble. It is difficult to say how these new areas will develop, but such expectations certainly correspond to the dominant trend of evolution of the system.

The increasing acceptance of the Japanese yen in Southeast Asia will considerably enlarge its function as a vehicle currency, regardless of the fact that the monetary authorities of that country do not wish to see the yen more widely used. The recent formation of an investment bank among the socialist countries, their active participation in the Eurodollar market, their continuing interest in the Bank for International Settlements by its socialist members, and their intermittent interest in the International Monetary Fund would seem to suggest that there is a conviction growing in that part of the world regarding the necessity of bringing themselves closer to the multilateral and flexible financial system of the West.

One should not forget that it is incorrect to pose a dichotomy between industrial and emerging countries. As a matter of fact, the currencies of some countries which are classified as "emerging" are already utilized in Fund drawings; some of them are even fully convertible. In this connection, it should be pointed out that economic unions are in the process of being formed in various parts of the world—for example, in Central America, among many countries of South America, and in East Africa. As in the case of the EEC, this process will lead to monetary integration, and by providing the basis for freer trade will contribute to greater monetary strength within each area vis-à-vis other areas. Undoubtedly, it would be in the common interest of the international community if the more industrialized countries were to encourage and support such a development. Consequently, even at the risk of being accused of crystal-ball gazing, one would hesitate to limit the horizon of future international monetary relations to the four centers mentioned above. Nevertheless, this process may leave out countries which do not find it possible or advisable to participate directly in any common-market arrangement. Such countries would still have the important advantage of being able to choose to link their currencies to one or the other of the existing or emerging blocs.

It is not ruled out that, while inside each area fixed parities with only limited margins for fluctuation would be the rule, wider margins and a reasonable degree of par-value flexibility would prevail in relations between the various areas. Each one of the areas would hold in its reserves gold (as long as the metal continues to be in the system), special drawing rights, IMF Reserve Positions, and a certain amount of the currencies issued by the other areas—to be used for pegging or intervention purposes.

The emergence of monetary unions would eventually lead to the allocation of SDRs directly to such unions rather than to the individual members. This would provide the basis for common reserves and foster the pooling of members' reserves, thereby facilitating the movement toward a common currency in each area. In connection with the developing countries, a portion of the special drawing rights could also be distributed in a different manner from that prescribed by the present Articles of Agreement. Within the creation of SDRs made in accordance with the global needs of international liquidity, some sort of link between SDRs and economic development could be devised which would not necessarily be inflationary. But this particular problem has not yet received sufficient attention and, consequently, the time may not be ripe for a decision in this field.

The United States is presently operating through the Federal Reserve in the money and foreign-exchange markets of other advanced countries by a maze of swap agreements involving 15 central banks (or monetary institutions) and their relative currencies. Its large credit line—of over $11 billion—is fractioned, however, among different currencies, whose availability is in principle restricted to transactions in each local market. These currencies are of different strength and acceptability and their own creditworthiness is also subject to wide and sharp mutations. The interconvertibility of these currencies is also subject to limitations, although it is facilitated by the Bank for International Settlements on a case-by-case basis. It would be a great improvement in the operations of the Federal Reserve to have as a counterpart a single and strong multinational institution, and the dollar a single and widely accepted currency through which it could intervene in any market, at any time, up to any portion of the credit line. Also, the amplitude of market facilities, compensating shifts within the market itself, should lessen the need for local intervention. All this should help in maintaining the relative position of the dollar vis-à-vis other currencies, and therefore reduce the need for the Federal Reserve to intervene. Moreover, as the system stands now, the emerging countries have no real choice in the way they may hold foreign reserves or intervene in foreign markets in support of their own currencies—it is either the dollar or gold. In view of the high cost of carrying gold, the authorities of emerging countries are reduced to operating almost exclusively in dollars. The emerging countries are continuously in the market either to sell or to buy dollars, and their operations may or may not coincide with international monetary stability at the particular time. These destabilizing effects depend on the way their balances of payments move or the rate at which they accumulate or dispose of their dollars. Should the emerging countries have an opportunity to hold surpluses in another common reserve unit, as strong and as acceptable as the dollar, such destabilizing movements would be lessened. Also, the accumulation of reserves in a new unit would facilitate the entry of foreign countries into Eurocurrency markets, for bank borrowing or capital issues, thereby lessening the pressure on American financing.

The financing of short-term capital movements between the areas should be assured by swap arrangements between the monetary authorities of the various areas—for example, as mentioned above, between the Federal Reserve System and the EEC Central Bank System, which would encompass all the agreements which today link the Federal Reserve with the individual central banks of the EEC. Each monetary center would, however, organize a network of swap arrangements with the countries with which they maintain special economic and financial relationships—for example, the United States with Canada and Mexico and the EEC Central Bank System with Austria, Switzerland, and Sweden. Swap arrangements would thus become an even more efficient mechanism for the recycling of short-term capital movements.

With these arrangements the role of the dollar as a reserve asset would gradually diminish in importance, while its role as intervention currency and especially as vehicle currency for commercial and financial transactions would be increased. Moreover, step by step, the dollar would be flanked in those three functions by the new currency units.

CONCLUSION

The analysis of the medium-term perspectives of international monetary relationships leads to two final considerations. The first regards the International Monetary Fund, which will find itself having to deal mainly with those responsible for economic policy in the various monetary areas, rather than with the authorities of individual countries. As in the evolution of central banking in domestic markets, the strengthening of the economic, financial, and monetary structures underlying these relationships will free the IMF from certain minor operations, but will enhance its role and influence in major decisions and actions affecting the stability of the world monetary order. Secondly, these new monetary relations would be consistent with the emergence, and would indeed facilitate the further development, of multinational economic units which give confidence to the maintenance and strengthening of free trade—the foundation of rising economic prosperity and living standards in all nations.

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† 5. Fritz Machlup, *The Need for Monetary Reserves.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review,* Vol. 77 (Sept. 1966)]
* 6. Benjamin J. Cohen, *Voluntary Foreign Investment Curbs: A Plan that Really Works.* [Reprinted from *Challenge: The Magazine of Economic Affairs* (March/April 1967)]
* 7. Fritz Machlup, *Credit Facilities or Reserve Allotments?* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review,* No. 81 (June 1967)]
* 8. Fritz Machlup, *From Dormant Liabilities to Dormant Assets.* [Reprinted from *The Banker,* Vol. 117 (Sept. 1967)]
* 9. Benjamin J. Cohen, *Reparations in the Postwar Period: A Survey.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review,* No. 82 (Sept. 1967)]
* 10. Fritz Machlup, *The Price of Gold.* [Reprinted from *The Banker,* Vol. 118 (Sept. 1968)]
* 11. Fritz Machlup, *The Transfer Gap of the United States.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review,* No. 86 (Sept. 1968)]
* 12. Fritz Machlup, *Speculations on Gold Speculation.* [Reprinted from *American Economic Review, Papers and Proceedings,* Vol. LVI (May 1969)]
* 13. Benjamin J. Cohen, *Sterling and the City.* [Reprinted from *The Banker,* Vol. 120 (Feb. 1970)]
* 14. Fritz Machlup, *On Terms, Concepts, Theories and Strategies in the Discussion of Greater Flexibility of Exchange Rates.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review,* No. 92 (March 1970)]
* 15. Benjamin J. Cohen, *The Benefits and Costs of Sterling.* [Reprinted from *Euromoney,* Vol. I, Nos. 4 and 11 (Sept. 1969 and April 1970)]
* 16. Fritz Machlup, *Euro-Dollar Creation: A Mystery Story.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review,* No. 94 (Sept. 1970).]
* 17. Stanley W. Black, *An Econometric Study of Euro-Dollar Borrowing by New York Banks and the Rate of Interest on Euro-Dollars.* [Reprinted from *The Journal of Finance,* Vol. XXVI (March 1971).]

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† (1) Klaus Knorr and Gardner Patterson (editors), *A Critique of the Randall Commission Report.* (1954)
† (2) Gardner Patterson and Edgar S. Furniss Jr. (editors), *NATO: A Critical Appraisal.* (1957)
* (3) Fritz Machlup and Burton G. Malkiel (editors), *International Monetary Arrangements: The Problem of Choice.* Report on the Deliberations of an International Study Group of 32 Economists. (Aug. 1964) [$1.00]

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Fritz Machlup, *Remaking the International Monetary System: The Rio Agreement and Beyond* (1968). [This volume may be ordered from the Johns Hopkins Press, Baltimore, Maryland 21218, at $6.95 in cloth cover and $2.45 in paperback.]

C. Fred Bergsten, George N. Halm, Fritz Machlup, Robert V. Roosa, and Others, *Approaches to Greater Flexibility of Exchange Rates: The Bürgenstock Papers* (1970). [This volume may be ordered from Princeton University Press, Princeton, New Jersey 08540, at a price of $12.50.]

13

MEMORANDUM FOR THE RECORD

Visit by Mr. Enrico Cuccia, President of Mediobanca, Tuesday, January 30, 1973

Mr. Cuccia started by saying that Mr. Carli had asked him to go to Washington to explain a proposal to Mr. McNamara. By way of background he told of the history of Mediobanca, which had initially been an Italian state-owned enterprise and now was owned one-third by the Bank of Italy and two-thirds by the public. Mr. Carli had expressed a desire to be more involved in African development affairs and had asked Mediobanca to act as a vehicle for investments there. Mr. Cuccia told of several investments which Mediobanca had made: the Dar es Salaam-Lusaka pipeline; a refinery in Zambia; and the Kilimanjaro airport. The bank has not gone into large projects, since it could not assume great risks without competent local partners which were hard to find. The pipeline financing had been backed by the guarantee of the Zambian Government. However, Mr. Carli and he felt that Africa's problems do not lie in industrialization but in agriculture. Hence, as the World Bank was the only institution which has done considerable in African agriculture, he proposed that the World Bank and Mediobanca together study and finance agricultural projects in Africa with prospects for profitable returns. He would propose to begin by studying the prospects in Zambia and mentioned also Nigeria, Liberia, Ivory Coast as possibilities.

Mr. McNamara said he was skeptical but that he would review the program of agricultural projects envisaged for FY74-FY76 in order to see if any projects were suitable. He understood well Mr. Cuccia's profit motive but wished to point out that the World Bank looks at the return to the nation which had averaged some 19% for World Bank financed projects in the last few years. It is difficult to ensure that the benefits are split in such a fashion as to provide a reasonable return to a private investor. As an example, he mentioned the dam where payments from water charges would not bring a greater return than perhaps 5%. This would constitute some 95% of the Bank's projects, while a much smaller category consisted of more commercially oriented agricultural projects, such as IFC investments in Iran.

Mr. Cuccia mentioned that Mediobanca's lending could possibly be on concessionary terms, since it would have assistance from the Italian Government and that it could be for 12-15 years.

Mr. McNamara asked Mr. Cuccia to spell out the elements of his proposal in a letter to allow further consideration within the Bank.

AL
February 1, 1973

President has seen

14.

15

10/23 file

5/23 To Dr. Fubini
Gene, I would like very much to talk to Debenedetti. Instead of having him make a special trip here, let me know when he next comes to the US & I will arrange my schedule to permit a meeting with him.
Many thanks.
RSM

E. G. FUBINI CONSULTANTS, LIMITED
2300 HUNTER MILL ROAD
VIENNA, VIRGINIA 22180

DOWNTOWN OFFICE
SUITE 1200, XEROX BUILDING
1901 NORTH FORT MYER DRIVE
ARLINGTON, VIRGINIA 22209

AREA CODE 703
527-8888

May 14, 1975

The Honorable Robert S. McNamara
President
World Bank
1818 H Street, N. W.
Washington, D. C. 20433

Dear Bob,

I have no idea whether you are looking for people but I know a man whom I highly recommend and know very well.

Name:	Camillo Debenedeth
Age:	40
Nationality:	Italian
Residence:	Torino, Italy
Languages:	English, Spanish, Italian, Fluent French (he speaks French like a native)
Profession:	International Banker
References:	Lazard and Hambro

This man was extremely successful in banking and in business, and is now worth, I guess, about $50M. I was extolling to him your abilities as a leader and recounting how much I enjoyed working for you even if it cost me personally a lot of money. I told him that he was at a point in life where he should try to use his ability to help other people rather than continue to make more money.

He was interested and told me that, if you had any interest in entering into a discussion, he was more than willing to come to the U.S. to see you (at his expense).

If you think such a man has any chance to work for you, I would appreciate it if you dropped me a note.

Sincerely,

Gene

Eugene G. Fubini

P.S. Since he is now involved in a major business deal with Lazard, it would be unfortunate if the content of this letter became known to the Lazards before anything is decided.

16

11-26

3990

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. Wm. Clark) WDC

DATE: November 20, 1975

FROM: John D. Merriam

SUBJECT: Interview with Mr. Mauro Calamandrei

Mr. Mauro Calamandrei, correspondent in New York for the Italian weekly magazine L'Espresso, requested an interview with you last October. You saw a previous memorandum (attached) on this matter. At that time, you agreed to a meeting, but postponed it until your return from Latin America.

Mr. Calamandrei has submitted eight questions for the interview. We have prepared written responses to them (attached). He will use these replies as part of a "theme" article on the Bank under your stewardship. During the interview, Mr. Calamandrei would go deeper into these questions for background and feeling. He is prepared to work on the basis of submitting "clear-back" quotes.

11/20

To make the interview more timely, it might be useful to add to these answers some comments on your recent trip to Latin America. For example, on question 1, something could be said on the Colombian attitude towards foreign bilateral aid in contrast with their warm relationship with the Bank. On question 2, you may talk about the Inter-American Development Bank work in Costa Rica or on our cooperative efforts in the rural sector in Mexico.

The article will not be in a Q & A form but will quote you fully on each issue raised in his written questions. (Former) Ambassador Ortona, Mr. Rota and our Paris Office are also interested in this interview.

Mr. Calamandrei is based in New York. He will be out of the country in December (visiting Mexico and Guatemala) and would appreciate a brief (30 minutes) interview with you before he goes. If you could see him next week, he will be pleased to come down. I shall bring him to your office at whatever time you find suitable.

Attachments

cc: Mr. S. Burmester, with attachments

I can see him at 1:30 PM Wed 11/26. Please return the Q + A to me Wed. morning.
[illegible]

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. William Clark

DATE: October 17, 1975

FROM: Dinesh Bahl DB

SUBJECT: Request for Interview with Mr. McNamara from Mr. Mauro Calamandrei of L'Espresso (Italy)

Mr. Mauro Calamandrei, correspondent in New York for the Italian weekly magazine L'Espresso, requested some time ago an interview with Mr. McNamara. Ambassador Ortona called you about this matter and supported Mr. Calamandrei's request. I am informed that Mr. Rota is also interested in this interview.

L'Espresso is a national weekly, with a circulation of about 450,000. Officially it is independent, but its sympathies are with the Socialist Party. It has always supported modernization and reform of Italian society, and it has a good following among intellectuals and professionals. It is one of the few magazines in Italy with a section devoted to economic matters, and its articles often deal with development issues emphasizing the problems of the Third World.

Mr. Calamandrei is a serious, hard-working journalist, who has lived more than twelve years in the United States. He has an LL.D. from the University of Firenze and a Ph.D. (History) from the University of Chicago. Mr. Calamandrei interviewed Mr. McNamara at the Department of Defense in 1966. He wrote an interesting piece on the World Bank published in the August 31 issue of L'Espresso (excerpts are enclosed along with a copy of L'Espresso).

Mr. Calamandrei has submitted eight questions for the interview. We could prepare written answers to these. Mr. Calamandrei has stated that should Mr. McNamara prefer to deal with any of these topics "off the record" he could do so. During the interview Mr. Calamandrei would go deeper into these questions for background and personal feeling. Afterwards he would submit for final approval any direct quotations he proposes to use.

The interview would be a good occasion to explain the new programs of the Bank to the Italian public, whose knowledge of the Bank is limited. The message would reach influential sectors of the Italian Parliament since L'Espresso is one of the newer magazines that are considered a "good source of economic information," and have helped in creating a new interest in development.

If Mr. McNamara agrees to the interview by Mr. Calamandrei, we will prepare draft answers to Mr. Calamandrei's questions and submit them for Mr. McNamara's approval. Mr. Calamandrei would like to interview Mr. McNamara within the next three weeks.

Attachments

cc: Mr. Merriam o/r ✓

17

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through William Clark)

DATE: December 2, 1976

FROM: Shirley Boskey, IRD SB

SUBJECT: Briefing for your Meeting with Italian Prime Minister Giulio Andreotti, Monday, December 6

Background

1. Mr. Andreotti is visiting Washington December 6-8 on arrangements made earlier this Fall. He is likely to be accompanied by Mr. Gaetano Stammati, Treasury Minister. A biographical note is attached.

2. Italian diplomacy is currently engaged in presenting to Italy's partners in NATO, OECD and the European Community the program of the Government that emerged from the June elections. Foreign Minister Forlani came back few days ago from a tour of several European countries after obtaining assurances of continuing support, especially from the European Community and Germany. The Prime Minister has reserved the visit to the U.S. for himself. He will see President Ford but not President-elect Carter; it is not clear whether he will see some of Mr. Carter's cabinet appointees. Contacts with some members of Mr. Carter's team were made in mid-November by Mr. Ossola, former Director-General of Bank d'Italia and now Foreign Trade Minister.

On December 2, ending a visit to Italy, Mr. Giscard d'Estaing called for a summit meeting of the Western industrialized countries in the first half of 1977. Mr. Andreotti endorsed the idea.

The political base of Mr. Andreotti's Government

3. The effectiveness of Mr. Andreotti's Christian Democrat minority Government depends on the continuation of the support the Communists have been providing to it pursuant to the Communist Party Secretary's policy of cooperation between Christian and Marxist political forces. So far, Mr. Andreotti has been able to preserve the delicate balance between the two major parties. For the future two main alternative scenarios are envisaged: (A) the Christian Democrats exploit the current Communist support and restore order and growth in the country. Meanwhile the Communist Party weakens as its electors feel they have been duped into what turned out to be the rescue of the capitalistic system in Italy. Early elections are held and Mr. Andreotti's party snaps back from its record low of 38.7% last June (v. the Communist all-time high of 34.4%) into the comfortable "middle forties". The Communists go back to the opposition; (B) The Communists gradually work their way into a controlling position. They would eventually enter the Cabinet and infiltrate other power positions from which they could launch a successful take-over of the country. At this moment either scenario appears plausible. The situation, however, may well unfold in different and more complex ways should a third party succeed in uniting various Socialist groups into a 15%-20% bloc of Progressive votes that would hold the balance of power.

The Economy

4. Italy's major immediate economic problem is the balance of payments gap. In spite of energy saving measures introduced in 1973, the oil crisis could not be faced without massive recourse to external financial resources.

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Having borrowed to the hilt in 1974, Italy had to resort in the following year to clamping down on all imports, a measure that ran counter to the country's post-war policy of free trade. In 1976, however, the import flow had to be somewhat increased to avoid hurting the economy and to assuage the country's international trade partners; consequently, a large balance of payments gap reappeared. At the European Summit Meeting held earlier this week, Mr. Andreotti issued a stern warning to the OPEC countries that increases in the oil price would not only play havoc with the industrialized economies but also backfire on OPEC members and the developing countries. Italy's normal international credit sources have been exhausted and its once large foreign reserves have been substantially depleted. The current IMF negotiation concerns a $500-odd million special tranche, a small amount compared with Italy's foreign debt of about $16 billion. While in Washington, Mr. Andreotti will also see Mr. Witteveen. The latter has made clear that the IMF places special emphasis on the slowing down of inflation in Italy, now running at about 17% a year.

The external payments gap cannot be eliminated by devaluation. Devaluation would increase the cost of imports, and hence the cost of living; this, in turn, would quickly result in a rise in salaries since these are fully indexed. Exports, whose cost would reflect salary levels, would then become uncompetitive and the foreign exchange gap would reappear.

Breaking this spiral is an essential prerequisite for managing the balance of payments, reducing inflation, resuming economy growth (projected at zero for 1977 by the OECD) and reducing unemployment and underemployment. In what is considered a master tactical stroke, Mr. Andreotti's Government has given the Labor Unions and the Industries Federation (now headed by Mr. Carli) one month to negotiate some substantial de-indexation of salaries and measures to increase labor productivity. The period will have just about expired when you meet Mr. Andreotti.

The public sector has a large deficit, both at central and local Government level. The Government, however, has taken measures to increase public tariffs and taxes for a total yield of $5.5 billion or about 4% of Italy's GNP. Interest rates have been raised; finally they have reached a level higher, if only slightly so, than the current inflation rate. Measures to improve tax collection and to reorganize various areas of the public administration are also expected to bring some benefits and have earned the Andreotti Government an activist's reputation.

<u>Italian Development Aid Program</u>

5. The DAC reviewed Italy's aid performance on November 26. Italy's ODA is a modest 0.12% of GNP v. the DAC average of 0.36%. No increase is expected in 1977 and Italy's ODA target for the end of the decade is 0.30% of GNP. ODA will continue to be mainly channelled through multilateral agencies.

The Parliament is considering two sets of measures. One is the long overdue bill authorizing a contribution to IDA IV of $181.3 million. With some Government effort, approval could be secured in the first half of 1977; the second is a proposal to set up an aid agency to consolidate and rationalize the foreign assistance operations the are now carried out by several ministries

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and agencies. The proposal has been presented at the initiative of parliamentarians but it is believed that the Government supports it.

Enactment of aid legislation should be increasingly well received by Italian public opinion. It appeared from the DAC review that public awareness is spreading in Italy about the importance of having good relations with the LDCs. The Government is making considerable effort to promote public interest, through research, meetings, and mass media communication programs. All political parties, including the Communist, are sympathetic to the aid effort and have set up committees to handle LDCs relations.

Possible Issues for Discussion

6. On a general level, a review of Italy's economic situation should be useful. Mr. Andreotti may seek your views on the likely developments in the U.S. and on the international scene as they affect the international cooperation system. On a more specific level, Mr. Andreotti's views on the future of the legislative measures referred to above in 5. would be of interest.

It may be of interest to Mr. Andreotti to know that the procurement contracts won by Italian industries in connection with Bank and IDA - financed projects have reached the total of $1,221.4 million, or abour four times Italy's cash contribution to the Bank and IDA.

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Biographical Note on Mr. Andreotti

Andreotti, Giulio; Italian; b. 14 Jan. 1919, Rome; m. Livia Danese 1945; four c.; ed. Univ. of Rome; President, Fed. of Catholic Univs. in Italy 42-45; Deputy to the Constituent Assembly 45 and to Parl. 47; Under-Sec. in the Govts. of De Gasperi and Pella 47-53; Minister for the Interior in Fanfani Govt. 54; Minister of Finance 55-58, of Treasury 58-59, of Defence 59-60, 60-66, of Industry and Commerce 66-68; Chair. Christian Democratic Parl. Party in Chamber of Deputies 68-72; Prime Minister 72-73; Chair. Foreign Affairs Cttee.; Chamber of Deputies; Minister of Defence March-Oct. 74, for the Budget, and Econ. Planning and in charge of Southern Devt. Fund Nov. 74-76; Prime Minister June 76.

Prime Minister Andreotti has legal background, and is a journalist and politician by profession. Typically, he has written his observations on his extensive travels, on the personalities he met and the events he lived (or "governed") through, in the bi-monthly magazine Concretezza ("Concrete World") he founded in 1954. His basic belief in progress, rationality and pragmatism have all been presented in print in this way, at one time or another. He has written several books, including one novel, devoted to Italy's history and to social and political problems.

In 1955, prompted by the Salk vaccine discovery, he wrote that all nations should devote a larger part of their resources to research to secure a better future for mankind; he praised the U.S. for being the first in offering its scientific and industrial resources for the struggle for peace, and in granting generous asylum to all scientists who were persecuted. Italy shared those basic ideals and therefore participated in NATO, a pact intended to provide the necessary shield to a creative society aspiring to live in freedom and peace.

In 1971, Mr. Andreotti reviewed the European-American relationship in an editorial underlining the stabilizing effects of the alliances system set up after the Second World War. He said that a balance was still to be found between national and international priorities, a question requiring changes in mass psychology and in the whole educational system, with the close cooperation of the information media. Examining the emerging trends in world equilibrium he concluded that the strengthening of the international coordination and consultation process was essential for handling the political problems in a rational way. In any case the links between Europe and the U.S. would remain vital.

Later, at the time of the international monetary crisis, he wrote that monetary problems cannot be discussed without considering the burden the United States bears for the defense of large areas of the world. The fact that NATO was considering reaching an understanding with the Warsaw Pact - he observed - was the logical consequence of a policy aimed at preventing dangerous imbalances. Yet, he warned, Europe could not do without the U.S. unless it was prepared to undertake a massive increase of its defence effort, or a world-wide disarmament plan could be negotiated.

Mr. Andreotti owns a model farm in Central Italy and keeps abreast of agricultural developments and technology.

Giulio ANDREOTTI
(Phonetic: ahndreeOTtee)

ITALY

Prime Minister

Addressed as:
Mr. Prime Minister

Giulio Andreotti, 57, long a prominent leader of the centrist faction of the Christian Democratic Party (DC), was sworn in on 30 July 1976 as head of a DC minority government, the survival of which depends--for the first time in the history of the Italian Republic--on the benevolent abstention of the Communist Party (PCI) in Parliament. Twice Prime Minister during 1972-73, he had served since November 1974 as Minister of the Budget, Economic Planning and the Fund for the South. He was Minister of Defense during March-November 1974 and from 1959 to 1966; other portfolios he has held include: Interior (1954), Finance (1955-58), Treasury (1958-59) and Commerce and Industry (1966-68).

DC leaders were almost unanimous in their choice of Andreotti as the man best qualified to deal with the PCI at this crucial time. To keep the Communists from direct participation in the government, he reluctantly agreed to the appointment of PCI members to the Presidency of the Chamber of Deputies and the chairmanship of several committees in Parliament. Andreotti last visited the United States in October 1975.

Andreotti is highly intelligent and receptive, willing to discuss views contrary to his own. A man of few words and a hard taskmaster, he also has a reputation for "keeping his cool" and for playing practical jokes. He does not smoke or drink, except for an occasional glass of wine with meals. He is a soccer and movie fan and a Latin buff. He speaks fluent French, can converse in Spanish and knows some English. A devout Catholic, Andreotti is married and has four children.

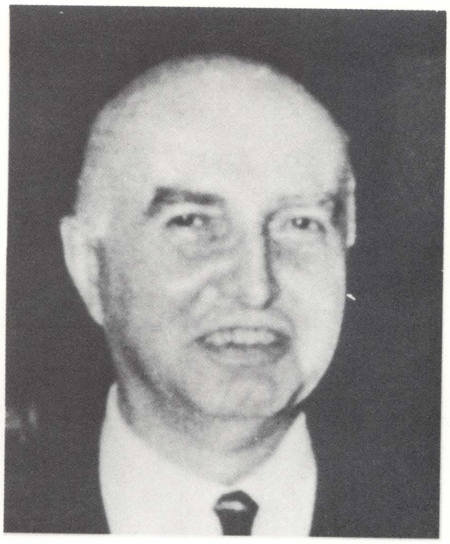
24 November 1976
CR M 76-14920

Roberto GAJA
(Phonetic: GAHyah)

ITALY

Ambassador to the
United States

Addressed as:
Mr. Ambassador



Roberto Gaja, 64, a veteran career diplomat, presented his credentials as Ambassador to the United States to President Gerald Ford on 14 July 1975. Before coming to Washington, Gaja had occupied two of the most important posts in the Foreign Office--Director General for Political Affairs (1964-69) and Secretary General (1969-75). In both capacities he was a regular member of Italian delegations to meetings of the European Communities and NATO and to various other international conferences. He traveled frequently to the United States as an escort to high-level Italian officials and to consult with US officials on subjects of mutual interest.

Gaja, who has a law degree, entered the Foreign Service in 1937. He served during World War II as vice consul in Lucerne, Hannover and Bastia, Corsica. In 1945 he went to London as a personal adviser to the Ambassador for discussions of Italy's postwar frontier problems. Gaja was First Secretary in Vienna during 1946-47, in Trieste during 1947-49, and in Libya during 1949-52. He was then sent to Paris as Counselor (1952-56). Returning to the Foreign Ministry, Gaja worked in the Directorate General for Personnel, first as head of its administrative office (1956-57) and then as vice director general (1957-58). He served as Minister in Sofia from 1958 until 1963, when he returned to the Foreign Office to become deputy director general for political affairs.

The Ambassador is married to the former Carla Travaglini Savio. The Gajas have a daughter, Maria Teresa, and a son, Giorgio. Gaja speaks English fairly well.

29 November 1976
CR M 76-14935

Mario MONDELLO
(Phonetic: mohnDELLo)

ITALY

Director General
for Economic Affairs,
Ministry of Foreign
Affairs

Addressed as:
Mr. Ambassador

A career diplomat with considerable experience in economic matters, Mario Mondello had been serving as Ambassador to Poland since 1974 when he was appointed director general for economic affairs in the Foreign Ministry in March 1976. He had been deputy director general of the same office during 1962-67 and was director general for cultural affairs and scientific and technical cooperation from 1970 until 1974. He has also served as Ambassador to Turkey (1967-70) and to Libya (1958-62). In early November 1976 he led a delegation to Peking to review Italo-Chinese economic cooperation.

Mondello was born in Rome on 7 August 1914. His family is of Sicilian origin, and his father was also a diplomat. Mondello obtained a degree in jurisprudence from the University of Messina in 1937 and entered the Foreign Service in 1939. Early in his career he served as Third Secretary at the Holy See (1943-44); as consul in Washington, D.C. (1945-47), and Lausanne, Switzerland (1951-53); and as Counselor in Moscow (1954-56). His intermittent assignments at the Foreign Office included the posts of chief of cabinet to then Foreign Minister Carlo Sforza (1947-51) and of director of the office responsible for relations with Eastern Europe (1956-58). He was promoted to the rank of Minister Plenipotentiary in 1960 and to Ambassador in 1972.

Married, Mondello has several children. He became a Grand Officer in the Order of Merit of the Italian Republic in 1964. He speaks excellent English and French and some Russian and Polish.

29 November 1976
CR M 76-14941

Umberto LA ROCCA
(Phonetic: la ROHKka)

ITALY

Diplomatic Adviser
to the Prime Minister

Addressed as:
Mr. La Rocca

A career Foreign Service officer, Umberto La Rocca was appointed diplomatic adviser to Prime Minister Giulio Andreotti in late August 1976. In this position he is the contact in the Prime Minister's Office for members of the diplomatic corps. La Rocca, who had handled European political affairs in the Foreign Ministry since 1971, was director of the Ministry's office responsible for European Communities (EC) political affairs during 1971-73. He was then assigned to the Directorate General for Political Affairs as coordinator of that directorate's offices responsible for research and programming, for relations with the USSR and East European countries, and for matters related to the EC, the Council of Europe and the Western European Union. In March 1976 he became deputy director general for political affairs.

La Rocca was born on 18 February 1920 at Port Said, Egypt. He earned a law degree from the University of Rome in 1941. He joined the Foreign Service in 1951 and has served overseas in the following posts: New York, 1953-55; London, 1955-62; Paris, 1964-68; and Washington 1968-71. After serving a short period in the Foreign Ministry's NATO office during 1962, La Rocca was appointed to head the Secretariat of then Under Secretary for Foreign Affairs Eduardo Martino in December 1962. He has held the personal rank of minister since August 1971.

La Rocca is divorced. He speaks excellent English.

29 November 1976
CR M 76-14939

Silvano PALUMBO ITALY
(Phonetic: pahLUMboh)

Director General of the Treasury, Ministry of the Treasury

Addressed as:
Mr. Palumbo

A career civil servant with considerable experience in international finance and monetary problems, Silvano Palumbo has held his current position since 1974. He had previously served for many years in the Ministry's Directorate General for Financial Relations with Foreign Countries, most recently (since 1964) with the rank of inspector general. In his official capacity, Palumbo travels frequently to attend regional and international conferences and to negotiate bilateral payments agreements. He has represented Italy on the European Communities' Monetary Committee since August 1975.

The son of an Italian lawyer who became an American citizen, Silvano Palumbo was born in Rome on 17 May 1916. He attended high school in Providence, Rhode Island, during 1931-32 and then returned to Italy to obtain a degree in economics. Employed by the Ministry of Finance in 1936, he transferred to the Ministry of the Treasury in 1948.

Palumbo is highly respected by his superiors for his professional qualifications. He is intelligent, well-mannered and cultured. He is greatly interested in music and the arts. He speaks some English.

29 November 1976
CR M 76-14933

18

OFFICE OF THE PRESIDENT

Meeting with Mr. Stammati, Italian Minister for Trade, May 3, 1979

Present: Messrs. McNamara, Stammati, Ambassador Cedronio, Mr. de Benedictis

Mr. Stammati said that he was here to discuss with the U.S. and Canadian Governments the issue of Italian exports. He then referred to increased Italian efforts under the program of aid to LDCs.

In response to a question by Mr. McNamara, Mr. Stammati said that the Christian Democrats would probably gain a little in the forthcoming election. Mr. McNamara said that he was impressed by the performance of the Italian economy despite the political difficulties. Mr. Stammati said that the main problem for the Government to face was the employment and housing situation. As to the underdevelopment of the south, there were many bureaucratic obstacles in the way of addressing them. As to trade with the U.S., Italy showed a surplus which had been doubled over the last years. It exported mainly consumer items, such as clothes, wine and automobiles. Seven items constituted more than 20% of exports to the U.S. Imports from the U.S. were mainly machinery and raw materials.

Mr. McNamara enquired about the problem of Italy staying in the EMS despite its higher rate of inflation. Mr. Stammati replied that inflation was presently running at 12% but was also rising in Germany. Under the EMS, Italy had a wider band. The high tourism revenues would help as would the present export drive.

CKW
June 5, 1979

19

573

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: FILES

DATE: March 26, 1980

FROM: Giovanni Vacchelli, IFC-CL1

SUBJECT: Minutes on the visit of Messrs. Piero Schlesinger, Giuseppe Saracini, Efisio Cao di San Marco and Adolfo Apolloni of the Istituto Mobiliare Italiano (IMI).

On March 11, Mr. McNamara received Mr. Piero Schlesinger, President, accompanied by Mr. Giuseppe Saracini, General Manager, and Mr. Efisio Cao di San Marco, Deputy General Manager of the Istituto Mobiliare Italiano (IMI). Mr. Adolfo Apolloni, U.S. Representative of IMI, and Dr. Giorgio Rota were also present. I attended the meeting at the request of Mr. Qureshi. It was essentially a courtesy call. Mr. McNamara expressed his appreciation for the support of the Italian Government to the work of our institutions. Mr. Schlesinger praised Mr. McNamara's leadership and efforts in pursuit of economic development.

Towards the end of the conversation Mr. Schlesinger mentioned the continuing interest of IMI in cooperating with the World Bank and its affiliates, and pointed out that IMI has supported World Bank borrowers through the provision of substantial credits: he specifically mentioned Comision Federal de Electricidad and Nacional Financiera (NAFINSA) of Mexico. Mr. McNamara said that he would welcome future opportunities of cooperation with IMI and mentioned that he could see the scope for such cooperation particularly in the case of IFC which was expanding its activities.

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After we left Mr. McNamara's office, I spent a few minutes with Mr. Schlesinger and his associates. I told him of our plans for a promotional mission to Italy later in the year. As we have done in other European countries, the purpose of this mission would be to establish or strengthen contacts with the Italian business and financial community, to make them more aware of IFC's programs and operations and to promote closer cooperation. I mentioned to Mr. Schlesinger that I will seek the opportunity of meeting with him in the near future to brief him on our programs. Mr. Schlesinger appeared very receptive, urged me to call him when next in Rome and offered IMI's support for our forthcoming visit.

cc. and cleared with: Mr. Qureshi
cc: Mr. McNamara

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 7, 1980

FROM: Moeen A. Qureshi MAQ

SUBJECT: Mr. Piero Schlesinger, President and Chairman of the Board Instituto Mobiliare Italiano (IMI)

1. Mr. Piero Schlesinger and IMI

Mr. Piero Schlesinger is known as a trouble shooter for Italy's Finance Minister Filippo Maria Pandolfi. He is a distinguished jurist and educator and was appointed President and Chairman of the Instituto Mobiliare Italiano (IMI) in February 1980. Mr. Schlesinger was born in Naples in 1930. He was a professor of law at the University of Pavia and until recently, President of Banca Popolare di Milano. He was instrumental in the financial reorganization of the SIR-Rumianca's group, a major chemical industrial complex.

Loans by IMI to SIR were part of the investigation launched by Italian magistrates against former Italian Central Bank Governor Paolo Baffi and his deputy Mario Sarcinelli.

IMI, a public institution, provides long and medium-term credit to industry and maintains offices in North America and Europe. A one page description of IMI is attached.

IMI has cooperated with IFC in the past by taking a US$300,000 participation in IFC's loan to Dalmine, Argentina, in 1969 and, via a subsidiary, in a US$350,000 loan and US$475,000 equity position in Aluminium de Grece, Greece, in 1970. Both loan participations have been repaid.

2. IFC's Activities in Export Credit Financing: Banco Latinoamericano de Exportaciones S.A. (BLADEX)

In September 1977, the Board of Directors of IFC discussed the role that IFC could play in organizing export credit facilities in developing countries. It was agreed that"IFC should explore the merits of creating and supporting one or more regional or non-regional institutions, through association of governmental institutions with international commercial banks, to assist exports of capital goods between developing countries".

Consequently, the first such regional export financial institution for developing countries aimed at financing non-traditional goods such as consumer durables and capital equipment was set up less than one year later. In July 1978 the Board approved an IFC investment of US$2.5 million or 9.94% of the total shareholding, in Banco Latinoamericano de Exportaciones S.A. (BLADEX). The other shareholders include 21 Latin American government-owned banks, 147 Latin American commercial banks, and 23 leading international banks. BLADEX is thus a cooperative effort of Latin American countries to ameliorate the problem of providing financing for exports of manufactured goods from developing countries which are intent on diversifying their exports but are themselves not importers of capital.

BLADEX started operations in January 1978 and its performance to date has been good. It has formulated sound and effective operational policies and has recruited competent staff. BLADEX has extended a large number of credit lines to shareholder banks on the basis of which these banks on-lend for individual export transactions. It has also begun to extend medium-term loans to finance exports of capital goods. Specifically as of December 31, 1979, its total assets were $193 million. Its income for the year was $1.5 million. An $18.75 million capital increase was authorized by the shareholders in April 1979 and total paid-in capital at the end of 1979 amounted to about $32 million. BLADEX is funded, in addition to its own capital resources, by lines of credit, deposits from central banks, and $25 million floating rate notes issued in August 1979.

Following BLADEX's example, IFC is currently exploring the establishment of a similar institution for the ASEAN Region. There are also prospects to establish such a bank in the Middle East.

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Attachment