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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FOR THE PRESS

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Address by Eugene R. Black, President of
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Mr. Chairman, Delegates to the Council:

I am glad to be able to say to you here today that the 12 months since we last met together have been an active and successful period for the International Bank. I want to summarize quite briefly our achievements during that period, and then to discuss more fully with you some of the special problems that aggression in Korea now forces us to consider in connection with the task of raising productivity and living standards. It is equally important to describe some of the basic lessons which the Bank has been learning about this task. For these lessons must be widely applied if men are to win that "larger freedom" of which the Charter speaks, and which today more vividly than ever is the goal of the United Nations and of your Council.

The documents you have before you -- our Fifth Annual Report and a supplemental statement bringing that Report up to date -- show what the Bank is doing to enlarge the freedom of men. It is helping to engage them in productive work; to put at their disposal such essentials as more power, better transport, and machinery for developing the land; and in general is providing them with tools which can magnify both the results and the rewards of their labor.

Since I met with you at Lake Success, the Bank has lent a third of a billion dollars for productive projects in its member countries. During the year, we made our first loans in Africa, the Near East, southeast Asia and Australia. Our

total commitments now come to more than a billion dollars, of which almost two-thirds has been paid out, for more than two-score undertakings in 20 nations. In short, the Bank has become one of the major sources of investment in economic development all over the world.

The Bank is functioning effectively as a pool of both governmental and private resources. More than half of our member countries, as compared to only five when I last talked to you, have consented to our use of some or all of their local-currency subscriptions to the Bank's capital. While the sums are not yet large, I hope and expect that our progress in this respect will continue.

We have been able to facilitate the participation of risk capital in economic development. In 1950 for the first time, portions of our loans were transferred into private hands without our guarantee, by the sale of bonds we had received from borrowers. A feature of one of our most recent loans was the simultaneous action taken by American banks to provide financing to the borrower for purposes related to that loan.

I want to emphasize here today that the Bank does not now face any difficulty in raising sufficient funds of its own to support its future lending activities. The bonds of the International Bank are well established in the American securities market. They are gaining additional acceptance abroad. Two important European stock exchanges, during the year, have been opened to our American issues: the Paris Bourse to direct trading, the Amsterdam Exchange to trading in certificates issued on the basis of our bonds held by Dutch banks. Banking institutions in a number of Latin American countries have now been authorized to purchase our bonds.

In the past year, we again went outside the United States to raise new money, through a second issue of our securities floated in Switzerland for Swiss francs. At the present time, we are making tentative plans to enter the Canadian market some time this year.

The major market for our bonds, of course, still lies in the United States.

As you know, we have just made a highly successful offering of U.S. dollar bonds. The requests of investors for these bonds, substantially exceeded the amount offered. American market leaders have cordially received the news that from now on, the International Bank expects to be selling its securities regularly as its lending operations require.

Barring unforeseen eventualities, I think both the Bank and its borrowers may rely on a continuous flow of funds from private investors, in the United States and elsewhere.

Events in Korea, however, suddenly confront us with the fact that availability of funds no longer means, as it would have meant a few months ago, that the supplies and equipment needed for development will smoothly be forthcoming as well. The armament efforts now proceeding in many parts of the world are pre-empting materials, machinery and manpower which otherwise could be used to create more wealth and higher standards of living.

This effect, serious in itself, may become still more serious if it is allowed to lead into uncontrolled inflation. Many of the underdeveloped countries today find that their foreign-exchange earnings have increased substantially as a result of the rise in the prices of foodstuffs and raw materials which they produce. But unless these countries undertake appropriate measures such as taxation, their changed international position will cause internal inflation. The result of that inflation would be to dissipate increased earnings without achieving any beneficial investment in development.

Inflation is no less a problem for the industrial countries of the world. In their case, inflation would eat up supplies: it would make it impossible for these countries to satisfy domestic demands for consumption on a reasonable basis, and would cripple efforts to increase or continue exports of capital and consumer goods to underdeveloped countries.

In industrial nations, I think we need a wise and confident perspective on this process of economic development. Two points here seem to me to be worth underlining. First, continuing support for higher living standards in less developed nations is vital to the preservation of peace. Poverty and despair, we all know, are a continual threat to peace; they both invite and abet aggression. Second, I want to point out that the resources available for economic development, even in the present situation, ~~may~~ still be substantial.

Let us remember that the industrialized nations of the world have tremendous vitality. This quality cannot be measured, but we would do well not to underestimate its effect.

In 1940, who could have foreseen the marvels of production that the United States of America would be accomplishing in 1945? Four short years ago, who would have dared predict that the war-torn countries of western Europe would, today in 1951, be exceeding every significant prewar index of production? Who would have ventured to foretell that the physical volume of international trade, so quickly after the war, would grow to unprecedented size? Yet all these things have happened. We have come close to proving the proposition of the great statesman who said, "There is in fact no limit to the benefit which human beings may bestow upon one another by the highest exercise of their diligence and skill."

Compared to the industrial world's capacity for production, the amounts of materials and equipment that can usefully be employed, for the present, in the basic development of the less developed countries are small. In terms of the volume of goods needed, the heavy demands of armament and the modest requirements of development do not deserve to be mentioned in the same breath.

I want to press on you again, however, the view that development is an urgent task. We cannot build a stable world out of nations whose populations are engaged in a tooth-and-nail struggle merely to keep themselves alive. We can achieve stability only when men are loyal to the social order in which they live, and when

that order provides an equitable sharing of rewards, so that men can live as neighbors rather than as rivals for an insufficient share of the world's goods.

It is imperative for all of us to help provide the means for men to create a better tomorrow for themselves and for their children. It is imperative to help build a common stake in the future which will lead to new unity and new vigor among the nations which share the same ideals about the dignity of man. This can be a great contribution to peace today. Carried on continuously and constructively, it can be an even greater force for peace and stability in years to come.

It follows from what I have said, I think, that the industrialized nations both can and should put support for economic development high among the urgent tasks they now have to perform. Some of this support may be relatively easy to give. There is still room to increase agricultural output considerably, and the underdeveloped countries can use food; wheat for workers is one of the basic fuels of economic progress. I do not mean to belittle the difficulties which certainly will arise in supplying critical industrial items. I do not mean to imply, either, that economic development can proceed without diversion of goods from other purposes in both industrial and underdeveloped countries. But I do, most emphatically, mean that dealing with these difficulties is worth all the diligence and skill we can apply.

The less developed countries, under present circumstances, have more than ever an obligation to select development projects of really fundamental importance to their economies. More than ever, they must forebear from pressing plans which may represent premature ambitions rather than urgent necessities. More than ever these countries should insure that the administration of development projects will bring them at least equivalent value for every unit of money spent. These are standards which should apply in any event; but now they are absolutely indispensable.

I spoke a few moments ago about the basic lessons which the Bank has been

learning about economic development. Prominent among them, I think, is the necessity of realizing that development is not merely a supplemental activity in the country which undertakes it. It grows out of and represents a country's whole way of living. To this way of living, a country must first look if it is to achieve economic progress.

Idleness and inefficiency, corruption and unstable government, can be heavier drags on progress than lack of capital; in themselves, they are likely to be among the root causes of a lack of capital. Tax systems that burden the poor more heavily than the prosperous, fiscal policies which encourage inflation, investments which are made for political rather than economic reasons, may all cripple an advance toward a higher standard of living. Indeed, they may cause that standard to fall.

In one way or another, the most necessary requisite for development may be reform. It may be the kind of reform which costs hardly any money at all. Or it may be the kind of reform which, although costly and difficult, can proceed without external assistance.

Of all the reforms which we have seen to be desirable, reform of land tenure is probably the most important, because the whole basis of development is the land. The achievement, throughout the less developed countries, of a wide system of independent holdings -- acreage of efficient size unencumbered by heavy debt -- would release energy and initiative on an unprecedented scale. It would be one of the longest steps we possibly could take in the direction of greater production, higher living standards and growing social stability.

However we look at it, we cannot escape the fundamental fact that the economic development of a country is primarily the responsibility of that country itself. Economic development is not something which can be imported from abroad. It must, at bottom, be won internally by acceptance of responsibility, hard work, and sacrifice.

Once these factors begin to appear, external capital may be used effectively. Without this capital, many of the less developed countries would be unable to accelerate their progress. But with it, they may be able to accomplish feats, in little more than a decade, that otherwise would take a generation to bring about.

Some countries have sufficient resources and credit to enable them to carry out development on the basis of borrowing from abroad. I think we should frankly face the fact that others do not; they cannot adequately accelerate the rate of their development if the only capital which they receive is in the form of loans which they have a reasonable prospect of repaying.

It has sometimes been suggested that this problem should be met by providing capital in the form of very long-term low interest rate loans. Such loans can, of course, only be made by governments. Because such loans, in form, appear to provide for a tangible quid pro quo which can be written down as an asset, it may be easier to secure legislative approval for them than for outright grants. But the very fact that these loans are made on especially easy terms and are still called loans should make us suspicious. Although easier terms reduce the element of risk, they do not come near to eliminating it. In the end, although some loans will turn out well and will be repaid, others will bring in their train, first, severe strain on the economy of the borrower and, finally, default. When this happens, there is likely to be ill will, rational and irrational, on both sides. The lender will resent the default on a loan made in good faith. The borrower will resent the years lost in abortive struggle to maintain payment on a debt, which he probably regarded in the first instance more as a promise of prosperity than as a serious financial obligation. The effect of such defaults is to destroy credit generally and to wither the integrity of all orthodox lending. In my opinion, when a country has a choice between making grants or quasi-loans of this kind, it pays in the long run to choose grants.

Let us suppose, now, that both external capital and the proper internal environment are available in an underdeveloped country. There still remains the need

to see that the available resources are efficiently applied to the problem of development. Since these resources will at best be limited, careful planning is necessary to obtain the best results. If development is undertaken haphazardly it stands little chance of success. It is a long-range process, which should rest on investment programs designed for several years ahead. At any given stage in the program, development projects must be chosen judiciously and in a proper relationship to one another; for example, there is no use in increasing production if the necessary facilities for transportation and distribution are not ready at the same time.

The International Bank has constantly urged the underdeveloped countries to draw up sound programs of investment, properly bedded in the right kinds of economic and fiscal policy. We have sent missions to some of these countries, to take inventory, so to speak, of the whole nation's resources and needs. I believe these missions will help our member countries to plan development efficiently, and will help to obtain widespread, non-partisan public support for sound economic advances that would not otherwise occur.

But if there is a need for programming on the inside of an underdeveloped country, there is also a growing need for coordination on the outside. Today, there is a bewildering multiplicity of channels through which the underdeveloped nations are being provided or offered external aid. Some of the assisting countries are proceeding on a purely national basis. Others are acting through a variety of instruments, both national and international, without much integration among them. The very multitude of voices, perhaps urging inconsistent or even contradictory policies, sometimes makes it difficult to induce developing nations to take some of the painful and unpopular decisions that are often essential to their further progress.

International agencies, I have no hesitation in saying, seem to me to offer potentially the most efficient avenue of approach. International action may

frequently be more effective than national action in inducing the less developed nations to adopt necessary, but politically difficult domestic measures. International organizations cannot, in truth, be charged with invading national sovereignty, with economic exploitation, or with political discrimination among different countries. Finally, these agencies seem to me to provide the best -- and probably the only -- way of directing the resources of national contributors toward the same common purpose.

It is easy enough to state these advantages as a matter of theory. To put them to work, however, is a different thing. A decision to enlarge the role of international agencies would involve judgments of great importance and difficulty on the part of those assisting nations that now tend to act independently. Yet I think there would be great benefit if these nations were to assign international organizations the key role in planning and coordination -- whatever the sources of financial or other assistance involved.

The problem can be resolved to some degree, I think, if the United Nations and the specialized agencies themselves take a stronger lead in working with member countries on development and related problems. But they will not be given leadership, and their leadership will not be accepted, merely because it is logical for them to lead. They must establish their place through achievement and concrete action. This is the challenge facing the International Bank and other specialized agencies of the United Nations today -- to show, by doing, that they deserve to be given key responsibility.

As I hope I indicated to you at the beginning of these remarks, the Bank is taking up this challenge in good spirit and considerable confidence. The charter written for the Bank at Bretton Woods six years ago has proved to be a wise and flexible document. The Bank has been able to operate vigorously under circumstances much more difficult than those originally foreseen for it. Today the Bank and its member countries have much to gain by stoutly pursuing the objectives set forth at Bretton Woods, and that is what the Bank, for its part, proposes to do.