ADDRESS BY EUGENE R. BLACK, PRESIDENT OF THE BANK, IN
PRESENTING THE SEVENTH ANNUAL REPORT
OF THE BANK TO THE BOARD OF GOVERNORS,
SEPTEMBER 5, 1952

Let me begin by expressing my gratitude for the gracious hospitality being shown to us by the Government of Mexico. It was, I think, a happy decision of the Governors that we should meet in this capital city. It gives us a chance to see with our own eyes something of a nation in which the process of economic development is fully under way.

Since before the war, the income of the Mexican citizen has, on the average, increased by more than half. This improvement has been brought about by the growth of production in almost every part of Mexico's economy. It was achieved without conspicuously plentiful resources and often under difficult circumstances. It has been based, to mention only a few of many factors, on the energies of the Mexican people, the adaptability and initiative of the citizenry, on sound investment of public funds in the expansion of basic utilities and social services, and on the sustained confidence of the country in a succession of competent national administrations.

The relations between the Bank and Mexico have been particularly close and continuous. The fact that we are meeting here is evidence not only of Mexican hospitality but also, I hope, of mutual satisfaction. Mexico, as a member of our Bank, can welcome us; and we, for our part, feel at home here.

This has been an active 12 months for the Bank. We slightly exceeded the record volume of lending we established last year. We provided more technical assistance to our members, especially in the planning of development. We were more active in raising funds in the capital markets of the world.

For the second consecutive year, our lending approached \$300 million. That sum is composed of \$30 million of new loans in Asia, \$68 million in Africa, \$79 million in Latin America, and more than \$120 million in Europe. Our second loan to Australia did not come until after the end of the fiscal year, but in each of these other areas, we

lent more than in the year preceding; and in Europe we lent substantially more.

Disbursements rose to \$185 million, the highest level since fiscal 1948. More than a third of this was used for purchases outside the United States.

The Bank has continued to adapt its lending policies and procedures to the differing problems presented by its borrowers.

We usually lend for specific and individual projects. In the great majority of cases, this is the most practical and effective form of collaboration between us and the borrower. But even when we make loans for single projects, we often are financing some key component of a larger undertaking. Some of the Governors were glad to observe last year that in the case of Australia, we were giving support to an entire program of development. We have made additional loans of this broader type since we convened in Washington 12 months ago—to the Belgian Congo, to Italy, to Yugoslavia and, for a second time, to Australia. These cases differ considerably in detail, but they all reflect the principle that the Bank is as much interested in the progress a country can make on a broad front as in the success of a particular project. Program loans may continue to be the exception rather than the rule; but they definitely have taken their place among the instruments used by the Bank to promote economic development.

In other ways, the Bank has kept its lending techniques flexible. Our loan of last October in support of the 10-year plan for the development of southern Italy, for instance, is for us a new kind of transaction. It is not intended to finance the equipment needed for carrying out this program. Rather, it will cushion the impact of the program on the Italian economy, by providing dollars to meet some of the demand for imported goods that the 10-year plan will generate.

Our loan to Belgium, likewise, might be called an "impact" loan—designed in this

case, to offset the dollar cost that will arise from Belgian support of a development program in the Congo.

The Bank is keenly aware of the necessity for keeping its lending flexible in another important respect. Up to now, the Bank has lent chiefly in dollars. To the extent that we can lend in other currencies, we can better meet the needs of countries more able to service debt in those currencies than in dollars. During the year, we made one loan to Iceland and another to Yugoslavia which are repayable entirely in European currencies. Almost half our railway loan to Pakistan consists of French francs, and part of our loan to Southern Rhodesia will be disbursed in South African pounds. Nearly 15 percent of the amount we lent this past year is repayable in currencies other than dollars—a proportion much higher than in any previous year.

With our lending at the current rate, we have increased our own borrowings. We went to the capital markets four times, with two bond issues in the United States and our first public offerings in Canada and Switzerland. The total amount of our issues was equivalent to approximately \$175 million, a sum greater than in any year since 1947. The Bank has also replenished its lendable funds by \$23 million of sales from its portfolio; more than \$10 million of these sales, let me point out, were made without our guarantee.

I am glad to say that our bonds enjoy a strong position in Switzerland, the United Kingdom and Canada, as well as in the United States. As the amount of our dollar obligations has increased, there has been a satisfactory broadening of the market for our securities in the United States. The Bank has been affected, however, by a general trend, all over the world, toward higher interest rates. We have had to pay more on our own borrowings, and there has had to be a corresponding rise of interest rates on our loans.

I would like to emphasize that the market for the Bank's own securities and for those received from borrowers is becoming more and more international in character. Of the more than \$500 million worth of direct and guaranteed obligations we have outstanding,

investors outside the United States hold approximately one-quarter. The central banking institutions of 12 of our member nations, in particular, have acquired for their reserves some of the largest known holdings of the Bank's bonds.

Finally, the Bank's lendable resources, as I have already implied, were increased by the release to us of parts of the local currency subscriptions of several member countries. The French Government, for instance, released the francs which will be used in the Pakistan loan, and the South African Government has made available to us pounds which will be used in the loan for Southern Rhodesia. Of particular note, let me say, was Canada's release, in the spring of this year, of 41 million Canadian dollars on a fully convertible basis. This constituted the balance of her original paid-in subscription of 58.5 million Canadian dollars to the Bank's capital.

If we survey all the funds which the Bank has had available for lending since the start of its operations, the international character of our financial resources emerges with particular clarity. Up to the end of the fiscal year our lendable resources amounted to the equivalent of nearly a billion and a half dollars. Of this \$375 million in dollars and other currencies—or about one-quarter in all—was received from, or borrowed in, our member countries outside the United States. I am hopeful, in spite of all the known difficulties, that the Bank will continue to receive releases of the currencies of its European members. The need for non-dollar funds is as urgent as ever.

One of the main objectives of the Bank, I hardly need remind you, is to promote the international investment of private capital in economic development. The Bank's bonds themselves are one of the principal avenues by which such investment is made, and most of our sales from portfolio have been made to private investors. In addition, however, the Bank has continued to be able to interest the private market in more direct participation in its lending. American banks this year took portions of two of our loans—one to the KLM Royal Dutch Airlines, the other to Pakistan—at the time they were made.

I see signs that private participation in our lending will become an increasingly important feature of our operations.

One condition, of course, for the international investment of private capital is that there be a reasonable prospect of repayment. In some cases, this prospect is clouded by the existence of obligations already in default; and in some instances the Bank has been able to encourage its member governments to start negotiating settlements on these obligations as an essential means of encouraging the resumption of foreign investment.

We have also, as you will have noticed in our Annual Report, made an intensive study of a proposal to establish an International Finance Corporation as a new instrument for investment in private enterprise. This Corporation would be affiliated with the Bank, but would have its own capital subscribed by member governments. It would be able to do two things the Bank does not do: it could make loans to private enterprises without governmental guarantees, and it could provide equity capital. We have prepared a report on this proposal, and shall continue to explore the idea with private financial and business interests and with our member governments. The proposal needs to be given further consideration, and the Corporation admittedly would be an experiment. But I personally think that it might prove to be a useful instrument for stimulating investment of private capital, both domestic and foreign, in enterprises significant in economic development.

The Bank, of course, does not regard itself merely as a source of financing. I have often said to you in these meetings that internal factors are more important in a country's economic growth than financing from abroad. We have therefore continued, at the request of member countries, to send our general survey missions, composed of impartial experts, to help those countries assess their potentialities and to draw up broad programs which will best channel their own energies and resources into development.

The reports of four of these general survey missions were presented during the year, to the governments of Cuba, Guatemala and Iraq, and, for Surinam, jointly to the govern-

ments of the Netherlands and Surinam. The report of our mission to Ceylon was published earlier this week in Colombo and Washington. In a few days, we will be presenting to the Government of Nicaragua the report of two of our staff members who spent nearly a year in that country, working with the Government in drafting a development program and starting to put it into effect. The recommendations of our recent mission to Jamaica are now being prepared in final form.

Economic surveys, I hardly need tell you, are nothing new. Many good ones have been done, and some of them lie moldering in the archives of our member nations. It is still too early to say what the fate of our own surveys may be; but I am glad to say that the results, so far, have been encouraging. I believe that the Governor for Colombia would agree with me that the report of our mission to his country, and the recommendations by a citizens' committee on economic development which followed it, have already had an important influence on the economic life of Colombia. In the case of other countries more recently visited by our missions, our Annual Report gives many instances of action already under way to carry out fundamental recommendations and provide a basis for accelerated economic progress in years to come.

The Bank has continued to take a broad view of its responsibilities and opportunities in other respects. Indeed, we could hardly do otherwise and remain faithful to the character of our Bank as a cooperative, international institution.

Early this year, after expressions of interest by Iran and the United Kingdom, representatives of the Bank visited London and Teheran. The purpose of our mission was to see whether the Bank could work out some interim arrangement for restoring oil operations in Iran and give the parties to the dispute time to reach agreement. Our efforts, as you know, were not successful, and our negotiations were recessed in Teheran last March.

The Bank has also offered its services in another matter affecting two of its member countries. When I was in Asia late last winter, I discussed with the Prime Ministers

of India and Pakistan an invitation I had already extended for the two Governments to examine, together with the Bank, the possibilities of developing the water resources of the Indus River System which are so important to the economic development of both these countries. The Governments accepted this invitation. Their engineers met with ours in Washington this spring, and successfully completed a series of meetings which drew up a program for studies of possible technical measures to increase the supplies of water in the Indus Basin. Their engineers and ours will convene again next November in Karachi for an exchange of information as a prelude to further meetings. I personally am encouraged. I hope that the eventual outcome will be the development of these water resources, with the help of the Bank, in a way which will bring great benefit to millions of people in both India and Pakistan.

As we review the Bank's performance in the past year, I think we can take satisfaction from the fact that our operations have been disturbed remarkably little by the economic changes which have taken place since the outbreak of war in Korea. Looking forward, it seems to me that if the Bank and its members fully grasp the opportunities they have, the coming year will see a significant increase in the Bank's operations.

In Europe, there continues to be an urgent need for greatly expanded production. This will require heavy investment in new plant and equipment, as well as in modernization of old. It will have to be achieved without provoking inflation, and will have to take place at the same time as United States aid is being reduced in scope and amount.

The Bank, for its part, can supplement Europe's own capital with dollar loans. I have already remarked that the scale of the Bank's lending in Europe was substantially increased during this past year. Our ability to lend in dollars, however, is limited by the fact that the capacity of many European countries to service additional dollar debt is itself limited.

From now on, it is clear, the countries of Europe will have to rely more on their own savings, and will have to mobilize their

own capital more effectively. This is a subject which is being actively studied on the continent. The Bank has followed this study closely and with sympathetic interest.

Some of the proposals which recently have been made envisage the creation of a new financing institution. If new arrangements come into existence, the Bank would, of course, cooperate with them. But let me point out that new institutions themselves do not create savings. Fundamentally we must work with what we have. I myself believe very strongly that the Bank itself could operate effectively as an instrument for mobilizing European capital, and I doubt that sufficient consideration has yet been given to the role we might play in this respect.

The Bank already has had some experience in tapping private resources by the sale of its securities in European markets. With the cooperation of its members, it could be more active in raising additional private capital. That might well require the working out of new types of bonds and of distribution techniques that have not yet been tried. I think this is a field well deserving further study, and I am anxious to explore, with the Governors most closely concerned, any adaptation of our operations that would better fit them to the particular investment needs of Europe and to the special conditions now prevailing in Europe's capital markets.

The continuing movement toward economic integration in Western Europe may raise new opportunities for the Bank. The Schuman Plan, for instance, which aims at the integration of the continental coal and steel industries, has now begun to operate. The capital requirements of the Plan certainly will be large, and the necessary equipment probably can be procured for the most part in European currencies. Should the Bank be asked to provide some of the funds, questions would arise with which we have not previously been confronted, for example, concerning the form of guarantee needed for a loan to an international body. In any case, the Schuman Plan potentially has great importance. It is one of the projects that the Bank, should it be called on, would be glad to search for feasible ways to assist.

For those of our member countries who are leading producers of primary commodities, the swift rise of raw materials prices that followed the outbreak of the war in Korea, and now the recession of those prices to pre-Korean levels, have been outstanding economic events of the past two years.

Not all primary products shared in the boom, and not all our less developed members shared in the higher earnings of foreign exchange that resulted. Nevertheless, a number of our member countries in Asia and Latin America made good use of extra earnings by devoting a sizeable portion of them to financing economic development. To do so required firm and expert handling of the inflationary pressures exerted by high prices in world markets; among several noteworthy performances of this kind, I might specifically mention those of India and Colombia. At the other extreme, I regret to say, some members of the Bank not only failed to take advantage of the windfall from high raw materials prices, but allowed inflation to distort their economies to such an extent that they are not so well off today as they were two years ago.

In any event, the boom is now over and our less developed member countries are left to deal with the same hard problems that confronted them before. There are, however, many factors in the situation which I find encouraging. In the postwar years, and particularly in the last two, I think much progress has been made, both in a growing understanding of economic development and in the adoption of techniques to bring that development about.

The governments of underdeveloped countries are realizing more and more that economic progress is the primary responsibility of the countries themselves. Responsible leadership, to an increasing extent, is buckling down to the job, and is attempting to achieve progress through sound planning, financing and engineering.

Many of the world's less developed countries are attempting to shape their economic policies—and especially their investment policies—to make better use of their own physical and financial resources. Intensive stocktaking of these assets has been under-

taken by an increasing number of governments as a first step in gauging more accurately the potentialities of their economies and determining the directions in which development should move. Programs and programming agencies have been established to assure continuity of effort. Finally, the financial resources, and the increasing skill of the underdeveloped countries in planning the use of those resources, have been supplemented by a growing volume of financial and technical assistance from the more advanced nations.

The problems which face the underdeveloped countries are still tremendous and difficult. Often in the past, I have stressed the shortcomings of the policies and practices of some of our member nations in dealing with these problems.

Nevertheless, the scene presented by the underdeveloped countries is one of growing activity, and of a growing amount of soundly planned activity. The implication for the Bank is that we have a broader and better basis on which to conduct our operations.

Many times, the Bank has warned that massive injections of foreign capital cannot successfully be absorbed in the first stages of a country's development. We have pointed out that shortages of skilled manpower and the lack of basic facilities are limiting factors which will take a long time to overcome. These statements have sometimes been misconstrued as expressing a timidity or a lack of real will on our part to promote development.

The facts show otherwise. To more than half our borrowers, we have made repeated loans—to Mexico, for example, in 1949, 1950 and 1952; to Colombia in 1949, 1950 and 1951, and to Brazil in 1949 and every year since then. In countries of Asia and Africa, as well as in the developing countries of Europe like Turkey and Finland, we are doing the same thing.

These continuing relationships are proof that, far from recoiling from additional commitments, we are on the contrary supporting the development of our member countries year by year and step by step. We are lending money in amounts our borrowers can effectively use and can reasonably be expected

to repay; we are lending for those purposes that will do the most to make the borrowing countries more productive and able in the future to put still more money to work. This is the basic principle of investment. Soundly and persistently applied, it can help nations to move forward.

Let us ask ourselves, what do we want, all of us, from this process of development? I think we want a world of freedom, of stable peace, of expanding production and trade—a world of opportunity in which free men can more and more govern their own careers.

How do we go about achieving what we want? Development is most certainly not the concern of only those countries whose standard of living is still woefully low. It vitally concerns, too, the more industrialized nations, because their own best hope of progress is an expanding world economy.

Financial and technical assistance will continue to be needed for many years from those countries which can afford exports of capital and skill. Granted that the underdeveloped areas do not yet have the capacity to make productive use of any huge inflow of resources, we must still admit that the present magnitude of international investment for development is clearly inadequate to the need.

Whatever form it takes, the assistance of the industrialized countries must be steady and continuous. It must not be warped by politics. And it must be accompanied by international economic and commercial policies consistent with the development objective—in particular by the removal of all

unnecessary restrictions on the movement of goods in world trade and of the money needed to pay for them.

But the main effort—and most of the means—must come from the less developed countries themselves. They must want development, and they must want it badly enough to make some sacrifices. It is up to them to free the forces of progress in every way they can—by continuity of effort, by fiscal and economic policies that will encourage economic growth, by sound programs of investment, by a multitude of actions which will increase incentives for labor, for management, and for capital—both domestic and foreign.

These are some of the conditions of progress. If they are met—substantially—the underdeveloped nations can advance, not with a sensational rush, but with an increasing momentum. And as the conditions of life improve, so will the prospects of a stable peace. Improvement in the living conditions of men brings a sense of personal fulfillment and self respect. With respect for themselves as individuals, people are not easily fooled by the cynical and disruptive propaganda of demagogues—whatever mantle they may be wearing.

In development the Bank, I think, has a vital role to play. Not only can we be a source of some of the capital that is needed; but we can serve as a focal point for stimulating and supporting constructive action on the part of all those who are working toward the common goal.