

ANNUAL ADDRESS BY EUGENE R. BLACK, PRESIDENT OF THE BANK,
TO THE BOARD OF GOVERNORS, SEPTEMBER 12, 1955

Let me begin by expressing my thanks for the hospitality being shown to us by our host, the Government of Turkey. And next, may I join your chairman in extending a cordial welcome to the Governors of Afghanistan and the Republic of Korea, representing the two newest members of the Bretton Woods institutions.

We stand here between two continents, and I think that we stand at a kind of bridge in time as well. The postwar era, characterized by emergency and crisis, lies behind us. Looking back on it, we can see that it was, after all, a period of great accomplishment. Looking ahead, despite many stubborn difficulties that are all too apparent, we have reason to think that patience and persistent effort can make the coming years a time of new well-being.

The Bank, as it enters its tenth year, is going forward in the same spirit of exploration and innovation that has marked its life up to now. Against the always pressing problem of how to raise production and standards of living, we are moving in new, and we hope, constructive ways. I shall mention four of them:

Since we last met, long strides have been taken toward the establishment of the International Finance Corporation, an affiliate of the Bank, which will work to promote

the growth of private enterprise and investment. We will be discussing IFC informally later in this meeting; but let me report now that the establishment of the Corporation is clearly in sight. After examining the charter the Bank submitted to your governments earlier this year, some 50 countries have expressed their intent to join IFC. The two largest prospective stockholders—the United States and the United Kingdom—have already completed the legislative action required; and other countries are taking action.

Our hope is that we can bring the new institution into being by the first of next January. But the timing, as I am sure you realize, will depend on your own governments. Further steps are needed to attain the necessary minimum of membership and capital—that is to say, 30 countries and subscriptions amounting to \$75 million. Let me urge you, who have spoken for the Corporation so eloquently at these Annual Meetings in the past, to work with equal zeal at home for early action by your governments. Once the necessary action has been taken, the Bank, I can assure you, will for its own part move to put IFC into operation without delay.

Let me next mention a familiar and fundamental problem—the problem of how

to increase the skill and efficiency with which available resources are applied to economic development. This is a matter with which the Bank is constantly concerned. It is one to which we are now taking another and new approach through the Economic Development Institute, a staff college for senior officials, which we have established with financial assistance from the Ford and Rockefeller Foundations. The task of the Institute is of real importance: it is to help the less developed countries to improve the management of their economic affairs by affording top administrators an opportunity to broaden their knowledge of economic development.

Our ambition is for these officials to return to their posts with new appreciations of what kinds of policies and programming, what kinds of practical action, are likely to make the best contribution to the economic development of their countries. We hope, too, that the Bank itself will benefit from the interchange of ideas and experience that will take place between the Bank staff and the participants in the Institute.

The Institute is now getting ready to offer its first course of study in Washington. We received many more excellent nominations for it than we had places available. Of the 16 candidates selected, nearly all have had wide experience in dealing with economic policy, and all hold important positions in their governments.

As you can see from the prospectus we have issued, we are asking to have nominations for the second course by the end of this year, so that candidates can be chosen well in advance of the start of that course in October 1956. This time, we hope to take a larger number of officials, possibly twenty-five. How useful this new Institute will be in any particular country, I want to emphasize, will depend largely on the caliber of the candidate put forward. These nominations are therefore an important matter, and one in which I urge the Governors to take a direct interest.

The third development in the Bank that I want to mention is an effort to develop an information service which we hope will help both lending and borrowing countries to make better use of international credit. The increased availability of international credit is a highly welcome development of the past few years—especially welcome, I may say, when it has resulted in private capital going abroad. Up to now, part of the credit extended has been offered, not primarily at private risk, but at the risk of governmental institutions established to promote exports.

This year, as I did last year, I want to express to you my concern over instances in which the use of medium term capital has been pressed beyond its proper limits. In fact, as you know, under the goad of export competition, there have been too many cases in which credit has been offered at medium or even short term to induce purchases of capital goods which can only be amortized at long term, and for projects whose economic merit has not been carefully appraised by either the lender or the borrower. As a result, some countries have so heavily committed their foreign exchange to medium and short term debt as to seriously diminish their capacity to attract the long term investment needed for steady and successful economic development.

The extension and acceptance of credit obviously demands the exercise of prudence on the part of both the lender and the borrower. One thing that makes the exercise difficult, as I mentioned last year, is a vacuum of information about how much indebtedness is outstanding. In these circumstances, neither the prospective lender nor the prospective borrower can assess the capacity to service new loans.

The Bank is now engaged in an effort to fill this vacuum at least partially. The Governments of 14 major exporting countries have agreed to communicate to us, every three months, information about medium term transactions to which they are a party—loans, guarantees, insurance, funding arrangements and the like. On the

basis of this information, the Bank will be able to total at least these categories of medium term debt, where the risk of lending was considered too great for private interests to carry without governmental assistance.

This collection of data is by its very nature experimental. The information obviously will not cover all capital transactions, and experience will be required in interpreting it. It will not be published; nor will it be divulged except to the governments concerned. It will enable the Bank, on a confidential basis, to provide information from which creditor governments may be able to gauge trends in the medium term obligations of borrowing countries and from which the government of a borrowing country can itself make a better assessment of the medium term demands facing its own resources of foreign exchange. In short, it is my hope that the Bank's collection of information can help improve judgments about whether it would be wise to extend or accept new credit in the amount, on the terms and for the purposes suggested. If it can do this, it will be performing a service of great importance to lending and borrowing countries alike.

Finally, let me mention that the Bank is watching the subject of atomic energy with interest. From last month's United Nations atomic conference at Geneva, the world caught a glimpse of the work being done to turn this awesome force to peaceful and constructive use. This was a startling and exciting glimpse; at the same time, I think it taught us that the atomic revolution is by no means just around the corner. The Bank believes, however, that it should keep itself informed of developments even in this pioneering stage. For that reason, we have recently appointed an atomic energy adviser, who is present at this annual meeting. He was among the staff members who represented the Bank at the Geneva conference, and he will continue to keep us acquainted with progress in what has been well called "the pacification of the atom."

These are new developments in the Bank. I certainly do not mean, however, that this account of them should obscure the operations we have been carrying out in the past year. The Annual Report you have before you covers one of the most active periods in the Bank's history; and one in which some of the encouraging trends I mentioned when we last met have continued to run strong and deep.

The Annual Report records more lending than in any other fiscal year—\$410 million equivalent. Since the end of the year, this pace has been more than maintained. We have made 12 additional loans, amounting to \$110 million. Our gross total of commitments, since we began operations, now amounts to something over \$2,400 million in 40 countries and territories.

One of these latest loans, I am happy to say, was made in Lebanon—the first to be made in a Middle Eastern country since 1950. The difficulties of developing and financing projects in the Middle East have long been a source of concern to the Bank; but they have not kept us from working in the area as helpfully and as persistently as we can. I am distinctly hopeful that this recent loan will be followed by others in the area: in fact, we have now informed the Government of Syria that we are ready to discuss the financing of several projects in their country.

Disbursements to borrowers amounted during the year to \$274 million. The growth in funds available for lending exceeded disbursements by more than \$100 million, and was greater than in any fiscal year since 1947.

Repayments, and especially prepayments, of loans accounted for more of this than any other single source. The Netherlands made two prepayments totaling nearly \$110 million; and Iraq repaid in advance some \$6 million, the entire balance due.

Nevertheless, we continued to rely on the capital market for most of our acquisition of new loan funds. A striking feature

of the year was that the Bank, for the first time, raised more funds through the sale of borrowers' obligations than it did from the issue of its own bonds.

We sold nearly \$100 million of maturities from our loans—some \$70 million from portfolio, another \$29 million through the direct participation of private investors in our loans at the time they were made. The total was nearly three times the amount of any previous year; and 99 per cent of it was sold without our guarantee.

This greatly increased investment demand for parts of the Bank's loans was accompanied, I am glad to say, by a willingness of purchasers to buy longer maturities than in the past. Investments of five-year maturity have become increasingly common, and in the year just closed we sold maturities up to 10 years. Still more encouraging was the fact that we were able to inaugurate a new kind of operation in combination with the capital market. We made loans to Belgium and Norway at the same time that Belgian and Norwegian bonds were being successfully offered to the public through groups of underwriters in the United States. We are looking forward, I may say, to further joint operations of this kind.

Record repayments and sales of loans made it correspondingly less necessary for the Bank itself to go to the market, so that we offered fewer of our bonds—some \$88 million equivalent—than for some years past. All of this was sold outside the United States. During the year, we made our first offering in the Netherlands, our second in the United Kingdom and our third in Canada. In an unprecedented operation which I mentioned at our last meeting, we placed \$50 million of our dollar bonds in 23 countries outside the United States. And in the last month, we have sold a second successful guilder issue in the Netherlands.

The availability of funds borrowed in member countries, however, does not lessen the importance to the Bank of having the full use of its paid-in capital. Nor does it

relieve our member governments of any of their obligation to let us use that capital for the purposes for which it was paid in. Up to now the full 18% of only two countries, the United States and Canada, has been made freely available for loans to any borrower and for purchases anywhere. Many members, including some who have released their 18% "in principle," have imposed conditions which prevent its effective use. For example, some members have put conditions on the rate of disbursement of their releases or on the countries to which their releases could be lent, or—most commonly of all—have limited the use of their releases to purchases of their own products.

Tied releases, in my opinion, have the same defects as tied loans. They are certainly contrary to the spirit of the Articles of Agreement. The Articles did recognize that the rate at which releases were made available might have to be regulated, to prevent an undue impact on the balance of payments and exchange reserves of the releasing member. But it was certainly never contemplated that the releases would be used as an instrument of commercial policy.

The Bank is entering its tenth year of operations. Production and income in many countries are at record levels; the reserves situation has substantially improved; international credits of one kind or another are being extended by member countries with increasing freedom. Surely the time has come for member countries to give the Bank effective use of its paid-in capital.

There is one other financial aspect of our operations that I should like to report to you. At the end of the 10th year of Bank operations next June, the Articles of Agreement, as you know, give the Bank the option of raising, lowering or even of abolishing the commission that so far has been required on the outstanding part of Bank loans. This matter has been carefully considered by the Executive Directors, and they have decided to leave the commission charge where it is, at one per cent. At this stage of the Bank's

own development this decision, in my opinion, was undoubtedly right.

While I have spent some time here discussing the Bank's financial resources, the Bank believes as strongly as ever that economic development and the raising of living standards do not depend simply on the availability of capital, still less of capital from abroad. Economic progress depends on the effectiveness with which nations use all their available resources; and the Bank has therefore continued, at the request of its members, to give advice on many different aspects of development.

In fact, this kind of collaboration with our members was greater in extent and variety this past year than ever before. Three general survey missions finished their work, on Nigeria, Malaya and Syria; and their recommendations for the formulation of programs of development were given to the governments concerned.

A general survey mission was organized and sent to Jordan; it has now returned to Washington and is preparing its recommendations. To give continuing advice on development programming, the Bank increased the number of resident representatives it maintains in member countries; it added representatives in Guatemala and Honduras. In Ecuador, the Bank helped to organize and recruit staff for the National Planning and Economic Coordination Board. Staff members also assisted the work of the Plan Organization in Iran, and the Bank agreed to recruit experts for employment by the Organization.

In a number of countries, we began or continued assistance on more specialized problems. At the request of the Government of Japan, a mission studied the Government's agricultural program and made suggestions designed to lead to further increases in production. Another agricultural mission is now preparing recommendations for the Government of Colombia. In Ceylon, a member of the Bank's staff helped to organize an Institute of Scientific and Industrial Research to improve production techniques,

and the Bank made this staff member available to serve as the Institute's first director. In Mexico, we continued to give assistance to a study of future electric power needs and of the ways in which the required expansion of power supplies can best be financed and carried out. To Colombia, we sent a mission to study the development possibilities of the upper valley of the Cauca River.

The Governors will recall the circumstances in which the Bank became associated with the delicate and complicated question of the irrigation use by India and Pakistan of the Indus system of rivers. The initial discussions between the two parties, in which the Bank participated, were held at the technical level. Much valuable work was done, but no real progress could be made towards a settlement of the main question involved. The Bank, therefore, felt it incumbent to put forward, itself, a proposal for a division of the waters on which a comprehensive irrigation plan could be based. In the autumn of last year, both Governments agreed to a resumption of discussions, with Bank participation, on a without prejudice basis, and taking as a starting point the division of the waters proposed by the Bank. These discussions are continuing, and continuing, I am happy to say, in a spirit of cooperation and goodwill. A modest success has already been achieved: the two Governments, with the good offices of the Bank, were able to work out earlier this year an agreement governing the use of the waters during the current crop season. I am sure that all of you share my hope that this activity, on which we and the two Governments have spent so much time and effort, will bring about an agreed settlement of this issue, not only because the issue is of vital importance to the economic future of the people of these two member countries, but also because a settlement would remove one of the most serious causes of friction between the two new nations on the sub-continent.

In all, it was an eventful and productive year in the work of the Bank. The years ahead, I believe, can be even more productive

for the Bank and its member countries. At the opening of these remarks, I mentioned to you the progress that has been made since the end of the war. The decade, we can now see, has been more than a period of recovery, more than a time of reversion to what was normal before the war. For much of the world, it has been a time of great economic expansion—greater, in all probability, than any 10 years of the past half-century.

Progress, I grant you, is never fast enough, but we can take encouragement from the results achieved since the end of the war. And there are reasons to believe that progress can continue. While there certainly will be fluctuations, the amount of capital available for investment will, I think, over the long run continue to grow appreciably; and the Bank itself has seen many instances of the quickening interest of investors, both domestic and international, in development opportunities.

The peoples of the underdeveloped countries will continue to press more and more strongly for better ways of life. Clearly, what was tolerable in the past can no longer serve the needs of the present. This is manifestly true for techniques of factory and farm production; but it is no less true for the way that individuals and groups of individuals think and act. Those persons favored by wealth, for instance, will have to recognize more and more that position brings with it responsibility, and that the ways immediately at hand for discharging that responsibility are to open their own lands to the plow or to invest their own capital in production rather than speculation. Among political leaders in power and out, there needs to be a growing willingness to put economic development above the level of factional and partisan politics.

On the governments of the less developed countries, the times exert pressures that are particularly great. Standstill governments in the past were both a cause and a result of standstill economies. But today, to achieve a rising standard of living also requires a rising standard of government.

While much more remains to be done, many countries have begun long-range efforts to increase the competence with which public affairs are administered, and to establish or improve essential public services.

The very urgency of their task has also sometimes driven governments into errors. One of the commonest of these is the failure to reconcile the conflict between the demand for a rising standard of living and the necessity for reasonable economic stability. Economic expansion can all too easily bring about monetary inflation that is fundamentally the enemy of economic development, and in too many countries, unwise economic policy has allowed it to do so.

Urgency also drives governments to try to carry out activities that could more usefully be performed by private hands. I have especially in mind the ventures that many governments are trying to carry out in the field of industry. Industrialization is an essential part of economic development; but in underdeveloped areas, it is handicapped by a weakness of entrepreneurial tradition, by a lack of operating experience and by a shortage of private capital willing to invest in industry. These circumstances, understandably enough, have led governments themselves to establish and operate industrial enterprises.

Yet if the real benefits of industrialization are to be obtained, I think that governments should undertake such ventures, if at all, only as a last alternative and only after a full examination of other alternatives that exist. And even in cases where a government may go so far as to start an industrial enterprise, I think every effort should be made to put the venture into the hands of private capital and private management as quickly as possible.

For rare exceptions do not disprove the often illustrated rule that it is not in the nature of government to act with the flexibility or the attention to business considerations that is required of good industrial management. And—successful or not—so long

as the enterprise stays in government hands, it does not stimulate the growth of similar enterprises, because private investors who could finance them are not willing to try to compete with government. The net result of these state ventures, more often than not, is to restrict the growth of production—or in other words, to defeat the very purpose they seek.

There are many useful alternatives between the government doing too much and the government doing too little. Attention to research in industrial techniques, studies of the industrial market, tax incentives, the promotion of a capital market, the extension of credit, or even a willingness, if necessary, to participate on a minority basis with private investors in founding new enterprises—all these may be useful without being self-defeating.

The leading alternative, in any case, is to see whether private capital and private management can be found. In the experience of the Bank, governments all too frequently underestimate, and often neglect to explore, the potential of private investment that exists in their countries. The Bank has sometimes encouraged and helped governments to prospect for private capital, and on these occasions capital has been found in more than sufficient amounts. If one can justify government ventures on the basis of the maxim, "Nothing ventured, nothing gained," the same maxim is an even stronger justification for a conscientious effort to find private resources.

Perhaps the greatest disadvantage from state ventures into industry is that they will divert resources and attention from fundamental tasks which, in the underdeveloped countries for the most part, are either going to be carried out by the government or are not going to be carried out at all. Government investment in industry means correspondingly less investment in the basic services—roads, schools, power, transportation, hospitals and the rest—that I spoke of a moment ago. Now these services are fundamental not only to industrial development but to all development. They can open the opportunities that eventually will call into play more effort, more investment and a greater amount and variety of production than any government could possibly finance.

The fact that our times are complex, and that the responsibilities of government have grown, should not obscure the truth that economic progress can continue with full momentum only if individuals and groups of individuals have the greatest possible opportunity to make their own successes, and for that matter, to make their own mistakes. The elevation of living standards has properly become a task of first importance to which governments throughout the world are applying their energies and for which they are mobilizing their resources. It would be a sad circumstance if they should neglect to exploit to the full that most productive attribute of the human race, the spirit of individual enterprise.