ANNUAL ADDRESS BY
EUGENE R. BLACK, PRESIDENT OF THE BANK

IT IS AGAIN A PLEASURE TO WELCOME YOU TO WASHINGTON. AND MAY I EXTEND GREETINGS PARTICULARLY TO THE GOVERNORS WHO ARE REPRESENTING THE TWO NEWEST MEMBERS OF THE BANK, ARGENTINA AND VIET-NAM.

IT IS A SOURCE OF PRIDE AND SATISFACTION TO ME THAT THESE ANNUAL MEETINGS HAVE BECOME THE OCCASION FOR BRINGING TOGETHER SO MANY OF THE FINANCIAL LEADERS OF THE WORLD. IN THE AGGREGATE, THE DECISIONS OF THE MEN IN THIS AUDIENCE—MEN IN PRIVATE FINANCE AS WELL AS MEN IN PUBLIC FINANCE—ARE GOING TO SHAPE A GOOD DEAL OF THE HISTORY OF THE TIMES THAT LIE IMMEDIATELY AHEAD. IT'S A PRIVILEGE FOR US IN THE BANK TO BE ABLE TO REVIEW OUR WORK WITH YOU EACH YEAR AND TO EXCHANGE IDEAS.

LAST JUNE THE BANK PASSED ITS 10TH BIRTHDAY. TODAY, AFTER A BRIEF REVIEW OF THE PAST YEAR'S ACTIVITIES, I WANT TO DIVIDE MY TIME BETWEEN TELLING YOU SOMETHING OF THE PEOPLE WHO ARE RESPONSIBLE FOR THE RECORD OF OUR FIRST DECADE AND DWELLING A BIT ON THE FUTURE—ESPECIALLY ON THE IMPORTANT ROLE THE LESS DEVELOPED COUNTRIES WILL PLAY IN THAT FUTURE.

IN THE YEAR COVERED IN THE ANNUAL REPORT BEFORE YOU, WORLD BANK LENDING WAS MAINTAINED AT A HIGH LEVEL. ALMOST $400 MILLION WAS LENT OUT IN 26 LOANS TO 20 DIFFERENT COUNTRIES OR TERRITORIES. FOR THE FIRST TIME, MORE LENDING WAS DONE IN ASIA THAN IN ANY OTHER CONTINENT.

MORE THAN A QUARTER OF THE YEAR'S LENDING WAS ACCOUNTED FOR BY TWO VERY LARGE DEVELOPMENT PROJECTS—THE KARIBA GORGE POWER PROJECT IN THE FEDERATION OF RHODESIA AND NYASALAND; AND THE EXPANSION PROGRAM AT THE GREAT TATA STEEL WORKS IN INDIA. THE KARIBA PROJECT IS THE LARGEST SINGLE PROJECT IN WHICH THE BANK HAS INVESTED. THE TATA LOAN IS THE LARGEST INVESTMENT WE HAVE MADE IN ANY INDUSTRIAL PROJECT, AS WELL AS OUR LARGEST SINGLE INVESTMENT IN ASIA.

AT THE SAME TIME, THE BANK MADE MORE LOANS—26—IN THE YEAR UNDER REVIEW THAN IN ANY PREVIOUS YEAR. IN ABOUT HALF THE CASES THE LOAN MADE THIS YEAR WAS ONE OF A SERIES OF LOANS MADE OVER A NUMBER OF YEARS IN SUPPORT OF THE DEVELOPMENT OF SOME PARTICULAR SEGMENT OF A MEMBER COUNTRY'S ECONOMY—ROADS IN COLOMBIA, POWER IN FINLAND AND URUGUAY, RAILWAYS IN THAILAND AND SOUTH AFRICA, FOR EXAMPLE. DURING THE YEAR FIVE MEMBER COUNTRIES BORROWED FROM THE
Bank for the first time—Burma, Guatemala, Haiti, Honduras and Lebanon.

The general rise in money rates in the world's major capital markets was a striking feature of the past year and it was reflected in Bank operations. As a consequence interest rates on Bank loans were raised towards the end of the fiscal year, and sales to private investors of parts of Bank loans fell to about three-quarters of the 1954–1955 figure.

The Bank's only borrowing transactions in the year under review were a bond issue floated in the Netherlands last summer and one floated in Switzerland last fall. In addition to the new Swiss borrowing of which the Governors have already had particulars in the Supplement to the Annual Report, I can announce to you this morning that we have just completed arranging the private sale, entirely outside the United States, of a $75 million Two Year Issue of 3\(\frac{1}{2}\)% dollar bonds to purchasers in 22 different countries. These transactions give a continuing demonstration of the wide international base on which the Bank is able to conduct its financial operations.

Member countries in the last fiscal year released nearly three times as much of their 18% capital subscriptions as they did in 1954–1955. This is encouraging. I am especially gratified by the announcement yesterday by our Chairman, Dr. Antonio Carrillo Flores, that Mexico has placed at the disposal of the Bank the entire remaining un-released balance of the Mexican 18%. In particular, I welcome the fact that one third of the amount of this release will be on a fully convertible basis and available to finance purchases by any Bank borrower in any supplying country. This is the first convertible release of 18% made by any of our Latin American member countries and I hope that this valuable manifestation of support for the Bank by Mexico will encourage more of our member Governments—not only in Latin America but elsewhere—to make their 18% capital freely available to us. We still have a long way to go before the Bank receives its due in this respect. In particular, more than half the amounts of the 18% capital subscriptions of European members are still frozen or so tied with restrictions as to be virtually useless to the Bank. I submit that in denying the Bank the full use of these subscriptions many members are lagging behind events in their own economies. I again want to urge them to catch up with the times. We cannot make our maximum contribution unless we have access to this 18% capital.

The financial results of the year set a record. The net income of the Bank was $29.2 million, up four and a half million from 1954–1955. Net income has increased in each of the past nine years and we have built up total reserves of $228 million.

Non-lending activities of the Bank also continued to expand during the year. The second course at our Economic Development Institute starts next week and I am glad to say we have been able this year to accept a larger number of candidates from member countries. I am also glad to report that the Ford and Rockefeller Foundations have agreed to continue their financial help to the Institute through 1958. Accordingly we have scheduled a third course to begin in the Fall of 1957, and I urge all those member countries with interested candidates to get their applications in as soon as possible.

In July, the International Finance Corporation came into being, as you all know. The birth of the I.F.C. has led to some important changes in the Bank's management—changes which are designed to equip us for a future which I hope will offer increasing opportunities for the Bank to contribute to world development.

Last June, when we closed the books on ten years of operations, I could not help thinking that the Bank had come a long way since the architects drew up the plans at Bretton Woods. We have had a hand in some 500 reconstruction and development projects in 42 different countries since we started business. We have lent almost two and three-quarters billion dollars and sold more than one billion dollars worth of Bank bonds.

To the men and women who made this record—professional and nonprofessional, in every grade and in every position—I want to pay a tribute today, for the Bank staff is the one indispensable asset which never appears on the balance sheet or in the annual report.
Our professional staff numbers 235, and of these, a large percentage are making the Bank a career. Sixty per cent have been with the Bank more than half its life. All of our department heads have come up through the ranks. Mr. Iliff, Mr. Knapp and Mr. Sommers—the three new vice presidents—have, among them, more than a quarter of a century's service with the Bank.

As a matter of policy we have not followed any special pattern of geographical representation in recruiting for the Bank. We need trained people, willing and able to adapt their training to the problems of development finance. But many of our member countries need such people more urgently even than we do.

Yet the staff has been recruited from 37 different countries, representing all the major cultures in the world. Despite widely diverse national backgrounds, these men and women have developed an international consciousness which has enabled them to operate as one of the most harmonious teams with which it has ever been my privilege to serve.

The requirements for a successful Bank officer are exacting. In whatever function he may be employed he must be versatile. He must be thoroughly conversant with the countries he is working on—with the economic and political background of the local scene. He must be able to judge the technical and economic worth of a project by itself and against the background of a nation's whole economy. He must be able to negotiate—to persuade and convince the people with whom he deals.

These requirements rarely, if ever, come ready made. While we choose men and women with specialized backgrounds for work in the Bank, we also insist on men and women with a capacity to adapt their backgrounds to a new kind of profession—the practitioner of international development finance—and I think I am justified in using the word "profession" in talking about the Bank's work. To be sure our profession is still in its infancy; our knowledge is still fragmentary and we are constantly adding to our techniques. But the men and women who are growing in experience with the Bank are developing unique skills in dealing with an area of problems which are certain to be with the world, possibly for generations to come.

I would also like to pay tribute to one man in particular who has left his mark on Bank operations. Mr. Robert L. Garner has left us after 9½ years as vice president of the Bank, to head the International Finance Corporation. I think it is fitting to point out the great debt we owe to him.

When Mr. Garner joined the Bank in February of 1947, he and the staff faced a formidable list of unanswered questions. The Bank had made no loans; no method had yet been worked out for negotiating loans. There were no standards set; no operating procedures. Such questions as interest rates and commitment charges were still up in the air. Formulating procedures for loan disbursement and administration still lay ahead.

As much as anyone Mr. Garner made the Bank work. He constantly steered the Bank toward concrete, achievable objectives. He always insisted on establishing standards in Bank operations which would attract and keep the confidence of the skeptical private investor—whether a potential bond holder or a potential partner in our lending. Above all, he inspired the staff to work together as a team, striving to see that judgments arrived at were balanced judgments to which all had made their contribution.

At every turn I relied heavily on Mr. Garner's advice and cooperation. I look back on my association with him as one of the most pleasant and productive in my career. I am happy to know that in the future he will be just around the corner, devoting his outstanding creative energies to the International Finance Corporation.

In my remaining time today I want to look ahead. I want to talk about the less developed countries, not just because they hold the key to the Bank's future, but because I am convinced they will determine in large part the future of the world.

I think it is clear that a great transformation is going on in these countries—a transformation which historians may well regard as the most significant fact of the Twentieth Century. This transformation had its beginning more than two centuries ago, when the
first western traders and colonizers set out to discover new lands and new markets. Over the decades these traders and colonizers had a tremendous impact on the ancient societies of Asia, Africa and Latin America. They set in motion currents of change among people who for the most part had not experienced change for centuries.

These ancient societies were rich in tradition and set in their social ways from time immemorial. The great mass of their peoples were poor in the material things of life; their economies were primitive and static. Secular nationalism was a foreign idea to most of them. But constant and increasing contact with the West and its standard of living, and with the steadily growing wonders of modern technology aroused more and more millions to improve their traditional lot.

In the past 15 years more than half a billion people in Asia and Africa have gained their national independence. But the fact of national independence has not yet brought the human betterment which the people of the less developed countries so urgently need and desire. That challenge still lies ahead. And I doubt whether any group of leaders in history has faced any more difficult or exacting challenge.

Economic development is a fickle process. It creates new problems even as it solves old ones; it satisfies immediate demands only to create new and larger demands. And, most important, it destroys old attitudes towards life and work, even as it creates materials for a better life. In the less developed areas of the world today the old stabilities are still crumbling as the minds of more and more millions are opened to new hopes and ambitions. The process of development has brought, with its benefits, turmoil and discontent which could thwart further development if not threaten the very foundations of world order.

Yet we also know that economic development is necessary for the kind of world in which people everywhere live and grow in peace. We know that the problems economic development creates—the turmoil and discontent, the new hopes and ambitions—can only be made manageable with more economic development. The process must go on. It must go on steadily in the less developed countries until some new stability is achieved which is compatible with the security and welfare of people everywhere.

Let us make no mistake, economic development in these countries today is not just a process; it is also an idea—a rallying cry for more and more millions who are aroused against their traditional poverty. Here is great potential for good. If the human energy in the less developed countries can be effectively harnessed to constructive economic development, these areas can well enjoy an unprecedented rate of growth.

What is needed to make good the promise of these countries is a recognition that there are impartial, dispassionate methods of planning, organizing, and carrying out development policy—methods which provide substantial insurance that concrete results will be achieved and that benefits will be spread broadly among the people. If national passions can be tempered enough to give these methods a chance to work, the result in terms of world peace and prosperity is likely to be very impressive.

I think there is a growing awareness of the importance of objectivity in development policy in the less developed countries today. But a great deal more is needed, and to get it we must first clear away several myths which becloud development policy.

Let me cite a few of these myths by way of example.

First there is the myth that today only governments can produce economic growth fast enough and of the right character.

Let me concede at once that there may be no substitute for government in a great many instances when it comes to getting development off the ground. In most underdeveloped countries the government has, and probably must have, the primary responsibility for providing basic facilities on which sustained growth can flourish.

But it is a dangerous myth to believe that economic development is a matter for government alone. The great and growing reservoir of human energy in the less developed countries today cannot possibly find a constructive outlet if all decisions affecting economic growth are left to the state. The enthusiasm and potential contribution of every individual must be
courted in a successful development program. And that means leaving a wide area of freedom for individuals to follow their own development initiatives and encouraging them to do so.

Then there is the myth that inflation is a handy device for making development painless. I'm glad to say I think this myth is almost ready for burial. There is a growing awareness of how inflation erodes savings, destroys the criteria for judging the soundness of investment, and plays havoc with a country's balance of payments.

But it is still difficult to find objective thinking about the practical steps needed to combat inflation. Probably the hardest decision we in the Bank have to make comes when we feel we must suspend lending to a member country because we believe inflation is undermining its credit and the vitality of its development efforts. Our action is almost bound to give rise to acute resentment. I will defend to the limit, however, the Bank's obligation to withhold support from governments which fail to deal effectively with inflation or with the threat of inflation. The myth that inflation is harmless is dying, but we still have a long way to go before it is securely laid to rest.

Finally, I would like to mention the myth that the foreign investor today is merely an up-to-date version of the old colonizers. Sometimes I think all our stereotypes of foreigners are at least 50 years out of date. We tend to believe that while our own lives are changing, the rest of the world is standing still. This kind of myth is by no means peculiar to the less developed countries.

The facts are that today there are not, in my opinion, enough foreign investors clamouring at the gates of the less developed countries. Those who are established, or would like to be established, have changed in their attitudes and outlook just as have the people of the less developed countries themselves. Certainly the foreign investor wants and is entitled to a fair return on his contribution. But I could point to a host of examples to prove that the return asked today is far different in amount and in character from that which the foreign investor took 50 to 100 years ago.

The danger today is not that the foreign investor will ask too much of a developing country, but that the developing countries will do too little to attract him. Today the foreign investor cannot go into a country unless he is actually wanted by the people of the country. By indulging the myth that the private investor is trying to force an entry to engage in some sort of evil exploitation, the less developed countries are cutting themselves off from one of the most productive sources of development assistance available to them. The capital and skills which the private investor brings with him may not be available from anyone else. Particularly he brings with him the skills of industrial management—skills which have to be seen in action to be learned. If a country is bent on industrializing and having the benefits spread broadly among the people, it can do itself no better service than to seek out the private investor abroad who is willing to risk his capital on the chance of a fair return on a successful venture.

By clearing away myths like these the leaders of the less developed countries will be far along the road to the kind of objective attitude which is needed for sustained, healthy growth. But when I speak of the importance of objectivity in development policy, I also mean disentangling that policy from conflicting short-term political aims.

We all have to live with our politics. The problem is not to insulate development from politics but to distinguish what is good development politics from what is bad. And here my remarks apply equally to the industrialized countries and the less developed countries.

For example, no leader in a developing country can afford not to set bold development goals; he must be responsive to his people. Yet no leader of a developing country can afford to set unrealistic goals and then disrupt the whole economy by trying to achieve them. This is the road to frustration.

Similarly, in the industrialized countries political leaders have a heavy responsibility to distinguish between short-term political advantage and the real long-term interest of their countries in the economic growth of the less developed areas of the world.
Despite the existence of an unprecedented flow of development assistance out of the industrialized countries today, the real self-interest of these countries is all too often obscured by a welter of short-term political and economic aims. All too often development assistance is seen merely as a means of buying diplomatic friends or military allies. As a result, all too often development assistance lacks continuity and provides an inadequate basis for the advance planning of development projects.

And all too often development assistance is seen merely as a means of helping domestic manufacturers, producers and exporters find new business. For example, I have mentioned several times on these occasions what I regard as the shortsightedness of the indiscriminate use of easy credit terms to promote exports. Business gained today on these terms is never worth the business lost tomorrow if easy credit leads to undermining the capacity of the customer to meet his foreign obligations in the future. (I might mention, too, that mortgaging future foreign exchange earnings for imports for ill-considered projects just because something is offered on credit can be a very bad bargain for the less developed countries as well.)

I think the industrialized countries would do a useful service just by drawing a clear distinction between aid for economic purposes, and aid for military and other non-economic purposes. This would at least define the real area of their concern for growth in the underdeveloped world for its own sake. It is very much in the self-interest of the industrialized countries that they define this area of concern clearly. For, as I have said, a common concern with economic development for its own sake is certainly the best hope—possibly it is the only hope—of helping the great transformation going on in the less developed countries along lines compatible with the growth and security of people everywhere.

In short, the degree of success we have with development in the less developed countries in the years ahead will be determined in large part by the success with which each country represented in this room can disentangle its real interest in such development from conflicting short-term political pressures and policies.

In the coming years the Bank’s contribution can, I am convinced, be increasingly important. The Bank is in a unique position to help its members put into effect those measures which are needed to achieve sustained, healthy development and to provide part of the necessary capital.

The Bank was originally conceived solely as a financial institution. But as it has come to grips with the problems of development, it has evolved into a development agency which uses its financial resources as but one means of helping its members along the whole broad front of economic progress. As I see it, the role of the Bank in the coming years will be to apply the knowledge and experience it gains to an ever increasing number of development problems. I see the Bank becoming a still more effective agent for promoting capital flow into the less developed countries, and perhaps the most persuasive external means of encouraging these countries to adopt policies and attitudes conducive to sound economic growth.

More is involved in this prospect than a continuation of economic surveys and loan negotiations. There is a continuing need for flexible and imaginative approaches to all the problems of development. One such approach is the International Finance Corporation, for which we in the Bank have high hopes. We are also following closely developments in atomic energy, as the seminar to which you are invited on Thursday illustrates; and we are exploring carefully the role which the Bank can play in assisting the application of this new technique to the field of energy. I have already mentioned the progress we are making with our Economic Development Institute. I hope that the Bank will always be in the forefront of organizations around the world which are seeking for new ways to give tangible effect to the idea of healthy economic growth.

But the Bank can grow only as it continues to receive the wholehearted support of its member governments. We have had this support in very full measure over the past ten years and I am grateful for and encouraged by the many manifestations of good-will that have been extended to me personally and to the Bank as an institution by all our member governments. The Bank is their Bank. It can make its maxi-
mum contribution only as its members continue to help create the climate and conditions in which the Bank can operate most effectively.

I would ask each of our members, therefore, to consider where its own real long-term interest lies in promoting this idea of economic development. And then how far this real self-interest is jeopardized by policies and attitudes which reflect, in some cases, emotional hostilities inherited from a past or, in other cases, considerations of short-term political or economic advantage. I would ask them, in other words, to decide what they really want. Is it short-term advantage, is it dogma, is it prejudice—or is it economic growth?

I pose these questions because I think, without, I hope, presumption that some national self-analysis on this subject is in order today. The old slogans have lost a lot of their meaning through constant repetition. The old reasons for helping others help themselves to better their material lot need re-examination and re-articulation. I said earlier that I thought that the less developed countries today hold, not just the key to the Bank's future, but in large part the key to the future of the world. It is because I think this to be true that I ask you to consider anew the challenge we all face in promoting the kind of sustained, healthy growth that is our common objective.