ANNUAL ADDRESS BY

EUGENE R. BLACK, PRESIDENT OF THE BANK

IT IS A PLEASURE to again welcome you to Washington. I would like to extend a special word of welcome to the representatives of our four newest members—The Republic of Ireland, Saudi Arabia, Sudan and Ghana. We now have 64 member countries, 12 of which have become independent nations since World War II.

This is the ninth of the Bank's Annual Reports that I have been privileged to present to you. On the Biblical precedent—and even on the economists' conventional reckonings of business fluctuations—the fat years should by now be well behind us, and the lean ones should be with us. There were certainly times during the past year when events gave cause for some anxiety. Happenings in the Middle East threatened to bring major economic dislocation and, at times, the world outlook has been bleak.

In some countries political instability has slowed down the rate of growth; in others, failure to maintain sound economic and fiscal policies has frustrated hopes of progress.

Prices are, on the whole, still rising—slowly and unobtrusively in some countries, but at an alarming pace in others. This movement has continued to eat away the value of money. In nearly every part of the world, investment demand has been high with the supply of savings insufficient to meet it. In these circumstances interest rates have climbed to new peaks.

Yet the picture as a whole shows further progress and continued high production. In many countries in all parts of the world real income remains at an all-time record. International trade and export earnings have grown at a very rapid pace, thus providing one of the most important foundations for further borrowing abroad.

In this setting of continued economic expansion, I can once more report a large amount lent by the Bank and important additions to its capital resources. During the fiscal year which ended last June we again made loans totaling nearly $400 million. And already in the three months that have elapsed since then, we have lent over $214 million. Asia, which in earlier years presented few opportunities for Bank lending, has received more loan capital in the past 15 months than any other continent.

There was also increased emphasis on lending for industry. In support of India's privately-owned steel industry, the Bank lent $20 million to double the steel-finishing capacity of the Indian Iron and Steel Company. This follows up the $75 million loan the Bank made last year to Tata Iron and Steel Company which will help increase capacity at Tata's main works by 60%. Another loan is financing a strip mill at the Kawasaki Steel Corporation in Japan. Large loans in Australia, Iran and Italy will also be partly used to promote the growth of industry. Although basic services will no doubt continue to claim the lion's share of the Bank's activities, it seems that with the present world-wide shortage of capital our funds will be in increasing demand for large-scale industrial investments.

In the field of electric power, the year's largest loan was made to Uruguay. This will help to build a hydroelectric project harnessing important water resources in the interior. With the aid of this and two earlier loans, Uruguay will increase its total generating capacity by over 100 per cent. Other power loans included finance for the construction of three hydroelectric stations in Chile and completion of a major hydroelectric undertaking on the Danube in Austria. Since the end of the year under review, the Bank has lent $66 million for the large Yanhee project in Thailand.

We have also continued to lend for transport. Two of the year's loans are helping to open up remote areas of Africa. In Ethiopia new roads are being built to penetrate rich agricultural land. A network of dependable highways already completed has contributed to doubling the volume of Ethiopia's principal exports. In Ruanda-Urundi, lying in the very heart of Africa, a loan will help to improve transport services radiating from the administrative capital. In the current fiscal year the Bank has lent $90 million for improvements on the Indian railways.

Two loans for air transport will help Australia and India to acquire the latest types of aircraft for their air lines. At the same time these loans helped the borrowing countries to widen their access to sources of private capital abroad. Both were linked with the raising of funds in the New York capital market by these two countries.

Finally, I ought to make brief mention of our loans for agriculture. These provided substantial sums for farm improvement in Italy. They furnished foreign exchange some of which was used for imports of farm equipment in Australia. Smaller but nevertheless significant sums are providing more plentiful farm credit in Costa Rica and financing land reclamation in Japan.

This volume and diversity of lending would not have been possible without large additions to our borrowed funds. In fact, during the past year we borrowed nearly $325 million—more than in any previous fiscal year. We re-entered the New York market on a substantial scale for the first time in three years, and sold two bond issues of $100 million each. We also sold a United States dollar bond issue, in a principal amount of $75 million, entirely outside the United States. Moreover the Bank obtained a loan from the Swiss Government equivalent to nearly $50 million. This was our first direct borrowing from a government. In addition, shortly after the end of the year we borrowed $100 million from the central bank of Germany.

It speaks well of the Bank's financial standing around the world, I think, that apart from its bond sales within the United States, it has within the last 15 months been able to place its securities in more than 20 other countries in an amount equivalent to $222 million. In addition, I can announce to you that we have now made another agreement with the central bank of Germany under which we will borrow $75 million. Even without taking this transaction into account, more than one-half the Bank's outstanding obligations are now held outside the United States.

Another source of finance upon which we were able to draw was our 18% capital. During the year we received more than $100 million from new releases—about the same amount as in the previous year. With our rate of disbursements continuing to rise and in the interests of the further expansion of the Bank's lending operations, I felt it my duty to draw attention to the large sums that had not yet been released. In subsequent discussions that we have had with member governments, we have on the whole found growing understanding of the Bank's position and increasing recognition of the need to make the whole 18% capital available to the Bank as soon as possible. If I seem to return to this subject unduly often, it is because of my conviction that ready access to the 18% capital was one of the basic assumptions on which the Bank was founded. It is vital to the full development of its strength.

Another important source of funds during the year was, of course, our net earnings. This year's figure of $36 million was, in fact, a record.

Apart from our lending we have continued to receive, and to meet to the best of our ability, a variety of requests for assistance of other kinds. I might perhaps mention one of a new and interesting nature. The potentialities of atomic fission for meeting part of the mounting need for power in countries with high-cost conventional fuels have been discussed at length both at our meeting last year and in many other places. Recently we completed arrangements with the Italian Government to undertake a joint study of the commercial feasibility of producing electric power from atomic energy in southern Italy and of the best site and design for a reactor. I believe that a thorough and impartial study of this kind will not only be valuable for Italy but will also provide data useful in assessing the possibilities of using atomic energy elsewhere.

The debates of the next few days will cover some very timely and important matters. Doubtless you will be discussing the shortage of capital, particularly in the less developed countries. Stress will be put on the urgent need for more external capital for the development of the less developed lands. There will also be, I am sure, considerable discussion of the problems of inflation. I would like in the time left to me today to try to put these matters in perspective.

These subjects occupy our thoughts today because they are basic to the difficulties which loom so large in so many of the countries represented here. We all feel the pressure of investment demands on the limited supply of savings available for investment; the need to increase foreign exchange earnings and the difficulties that stand in the way; the many competing and conflicting claims which governments everywhere today have to reconcile with the limited means at their command.

In large part, all of these problems are signs of growing pains—the natural consequence of a decade of unprecedented growth in the world and of the compelling desire to go on growing. While circumstances differ from country to country, some governments are clearly running out of breath simply because they have been running very fast—sometimes, indeed, too fast. From a strictly economic point of view, therefore, today's problems need not be cause for undue discouragement or alarm.

The shortage of development capital and the dangers of inflation are more serious when viewed as political problems. The past decade was one of record promises as well as record achievement. If practice does not continue to live up to promise, at least in part, many governments may face stormy weather. If the economic course is fairly easy to chart, holding the ship of state on that course is going to require some difficult and courageous decisions.

Those decisions, in my view, relate primarily to questions of balance—balance between consumption and investment; balance between productive and nonproductive investment; balance between industry and agriculture, balance between investment to increase export earnings and investment for the home market.

People will not voluntarily save for tomorrow if they cannot today see some improvement from the investment of yesterday; in a free society there must be a balance between rising consumption and rising investment. And free governments cannot give investment an overriding priority over all other concerns; productive investment must be balanced with concessions to the traditions of the people and with a legitimate concern for national defense.

Governments cannot afford to take great risks with the food supply in order to build steel mills with labor driven from the land; there must be a balance between industry and agriculture. And free governments cannot seal themselves off from the world and demand of their people great sacrifices in the name of self-sufficiency; they must earn the trade and investment of the outside world to provide goods and services for their development programs; they must balance investment for export with investment for the home market.

The largest single cause of imbalance is the volume of unproductive investment which governments feel they have to undertake. One obvious item is military expenditure. Many countries today are spending one-quarter or one-third or more of their budgets on arms, and often the foreign exchange drain is even more burdensome.

It is a trite observation to say that this is a sad commentary on the progress that humanity has made toward a better and a fuller life. The hard facts are, however, that many countries are today exposed to threats to their security; defense priorities are heavy; the need for sizable military establishments make difficult and courageous choices unavoidable. Where these circumstances exist, one must refrain from criticism.

But do they everywhere exist? Are there not too many governments today who, for reasons no more valid than prestige, or ostentation, are channeling into expenditure on arms scarce resources which are thus denied to the needs of development? Where this is happening I think that great risks are being taken with the hopes and expectations of their people for economic growth.

There is another, equally large, category of nonproductive investment causing imbalance in the less developed countries today which might be labeled, simply, waste.

Some waste is inevitable in any development process. Perhaps considerable waste is inevitable in those countries which have recently achieved their national independence and are experimenting with the forms of free, self-government, while being at the same time weighed down by a tremendous load of legitimate development demands.

It remains true, however, that every ill-planned or badly-executed development project not merely consumes scarce resources; it also undermines the faith of people in the ability of free governments to produce concrete results to buttress their promises. Power plants so built that they operate far below their capacity; new highways constructed at the expense of failing to maintain old ones; new farm land that is cleared and irrigated and then left to lie fallow; social expenditure undertaken without the talent or the resources to make the service useful—all these things are monuments to waste.

I frankly think a great deal of this kind of waste stems, not from a lack of knowledge, but from inadequate weight being given to the evidence of financial and economic experts in the countries concerned. It stems from decisions based more on short-range political considerations than on economic facts.

One area in which this tendency prevails to a regrettable extent is the field of public utility financing. Where there is no domestic bond market, the choice between subsidies and adequate rate structures can be critically important in the context of balanced development. In one or two countries, for example, a good case could be made that subsidies to government-owned utilities are being financed at the cost of reductions in the government's education program. Actually less is being spent on education in these countries today despite an increased national budget. At the same time money is being used to subsidize public utility services—to provide cheap power to industries which, without any appreciable effect on their own costs of production, are fully capable of paying the economic cost of these services. This money might better have been used to build and staff new schools.

When the choice is as clear and as compelling as this, I cannot understand why it is so difficult for governments to accept adequate rate structures. Yet the wide-spread tendency in underdeveloped countries today is to fix the price of utility services at a figure which, in fact, entails a subsidy for the benefit of those consumers best able to pay. This approach seriously distorts development.

The economic facts of life may not be the most inspiring facts with which to persuade people. They may not always be the most important facts. But decisions of policy, reached without giving them due weight, will almost certainly lead to a maximum of waste and distortion and a minimum of higher living standards.

A third, and perhaps most important, cause of imbalance in the development of the less developed countries today is simply the fact that some governments are trying to do too much. The serious threat of inflation makes it extremely dangerous for governments to extend their activities beyond those areas where only government can provide the necessary capital.

Particularly, I deplore the decisions of governments which tend to reduce investment in their own legitimate spheres of activity in order to branch out into fields where private enterprise, domestic or foreign, is willing to do the job. And it is equally harmful where whole areas of economic activity become paralyzed because governments cannot make up their minds whether or not to allow private enterprise do a job it is willing to do.

What government does not already have its hands full without reaching out into new fields? What government has so much foreign exchange that it can afford to bar a responsible foreign investor?

There is no ideological argument here. Just common sense. No country ever achieved balanced economic growth without substantial help from the private entrepreneur—domestic and foreign. By not courting his help, governments in the less developed countries are simply increasing their already onerous burdens.

For the industrialized countries, too, in their relations with the less developed world, the big questions today are, in my opinion, questions of balance. And here again difficult and courageous decisions are needed to prevent imbalance from aggravating development problems further.

The industrialized countries, which have contributed the bulk of the Bank's subscribed capital, have done so, I believe, because they have felt they had an interest in raising living standards in the less developed lands—an enduring interest apart from short-range political or commercial interests. Over the long run it is only by helping to raise living standards that they can hope to influence events in the underdeveloped world in directions compatible with their own security and beliefs in individual freedom.

But this is a complex argument. And among the mass of the people in the industrialized countries today the meaning of events in the less developed lands is only vaguely appreciated. While things like foreign aid and foreign trade are more or less accepted policy aims, the challenge of the underdeveloped world is, perhaps understandably, very much on the periphery of their lives. This lack of public understanding has tended, I think, to obscure and distort the real purpose of development aid.

It is easy to describe the interests of the industrialized West in the less developed countries in terms of defense or of diplomacy or of new markets and sources of supply. It is easy to argue that if there isn't "foreign aid", then there won't be allies or as much money to buy a given line of exports.

Now there is some truth in all these assertions. Ultimately, development aid is related to all these interests. But in the long run it is only related insofar as development aid helps to raise living standards and bring about the stability and confidence on which lasting alliances and lasting commercial relationships are built.

It is the achievement of higher living standards, not export promotion, which should guide development policy. The one leads to a natural market; the other often to only a temporary, subsidized market. It is the achievement of higher living standards, not a desire to win allies or to gain an advantage in diplomatic maneuver, which should guide development policy. The one leads to a solid foundation of mutual respect; the other, only to temporary accords.

And waste, too, should be a primary concern of the industrialized countries in their dealings with the less developed lands. The application of impartial standards of economic and financial worth are just as necessary in the administration of development aid as they are in the planning of domestic investment programs.

In this respect, as well as for many other reasons, the very large increase in private foreign investment in the less developed countries over the past two years is very encouraging. Private investment is almost always less wasteful of talent and resources than is government investment. Private investors know from experience how much more than capital is needed to make the complicated machinery of development work. The technical and management skills they bring with them set an invaluable example in the techniques which can be used to keep waste at a minimum.

I do not underestimate the degree of skill and resolution necessary to keep all these problems of balance within bounds. My plea is that governments recognize the need for balance so that development may result in higher living standards and may flourish alongside free institutions.

If governments become the prisoners of their own, more or less arbitrary development targets, in all probability something will have to give under the pressures of inflation and the impatience generated because practice is not living up to promise. And perhaps the greatest danger is not that development will give but that government by the consent of the governed will be abandoned.

At the same time, if governments do not have clearly defined development goals—are willing only to talk about the objective of higher living standards or to subordinate that objective to short-range policy considerations—then our task is an impossible one. The attainment of higher material living standards, like most other worthwhile things in life, has a price; it can only be achieved if governments, leaders and people are willing to pay the price.

For my part, it will be my aim that the Bank should make, over the years ahead, a continued and significant contribution to the capital requirements of that basic development on which higher living standards depend. If tight money market conditions persist, funds will inevitably become more expensive, but I remain hopeful that, in the future, as in the past, international savings will continue to flow to the Bank on a scale that will ensure that no meritorious loan application will be turned away.

But at most, ours is a supporting role. The real problems are yours and the hopes of millions and millions of people hang on your ability to resolve them wisely.