Address by Eugene R. Black, President of the International Bank for Reconstruction and Development, before the 21st Session of the Economic and Social Council of the United Nations, meeting at U.N. Headquarters, New York City

TO BE HELD FOR RELEASE UNTIL DELIVERY HAS BEGUN, EXPECTED TO BE ABOUT 10:30 A.M. WEDNESDAY, APRIL 18, 1956

This is the seventh occasion on which I have had the privilege of appearing before this Council to discuss the work of the International Bank. I always look forward to this opportunity to exchange views with you on the activities and policies of the Bank and on some of the more important problems of development with which we are all so deeply concerned.

Our Annual Report for the fiscal year which ended last June, and a supplementary report which covers our activities through January of this year, have been circulated to you. I shall not attempt to discuss this morning the whole range of activities described in those reports; instead, I should like to concentrate on what seem to me to be the important or particularly interesting developments in our activities during the period under review.

In the past fiscal year the Bank loaned $410 million for development purposes, a record figure. Since then we have made 17 more loans totaling $257 million. These loans represent a substantial extension in the geographical scope of our operations, since we lent for projects in seven countries or territories in which we had not been active before -- Algeria, Ceylon, East Africa, Guatemala, Honduras and Lebanon. As of today, our loans number 141 and amount to almost $2-1/2 billion; they have helped to finance projects in
Our largest loan in 1955 was one of $70 million in support of a broad program for the development of Southern Italy, a program whose total cost is estimated at the equivalent of $2 billion. Though very large in scale, the program has been ably planned and is being intelligently and vigorously executed; as a result, it has captured the imagination and support of the Italian people. The Bank had previously made two $10 million loans for the project and this year's increased financing is evidence that the operation is now in full stride. This particular loan stands out from the usual run of Bank financing, I think, because of the deep impact which the program promises to have upon the whole economy of an important member country. There are, I might add, two other very sizeable projects before us which may have somewhat the same far-reaching effect upon the course of development of the countries concerned; I refer to the High Aswan Dam project in Egypt and the Kariba power scheme in Rhodesia.

The past year has also been marked by substantial activity in the Bank's technical assistance program. The reports of two general survey missions were published, on Malaya and Syria; a third such report on Jordan is nearing completion. Among other activities, we gave Iran assistance in recruiting technical staff for its Plan Organization, helped Ecuador to establish a Board of Planning and Economic Coordination, sent several advisory missions to Colombia, and assisted Mexico to carry out a full-scale study of its electric power requirements. At the request of the Italian government, a mission has now gone from the Bank to Italian Somaliland, and we hope that its report will be of value in future deliberations of the Trusteeship Council concerning that territory.

We have continued to participate actively in the series of discussions on the use of the waters of the Indus Basin which have been taking place in
Washington, under the auspices of the Bank, between delegations from the Indian and Pakistan governments. These important negotiations are still going on and I am hopeful that they will have a favorable outcome; they have already resulted in two interim agreements between the governments covering the last two crop seasons. We also have missions at present in both India and Pakistan making extensive enquiries into the development plans of those countries.

The newest development in the Bank's technical assistance work has been the establishment, with financial assistance from the Ford and Rockefeller Foundations, of our Economic Development Institute, which began its first course in Washington in January of this year. Successful economic development in any country is obviously dependent in very large measure on the ability of responsible senior officials to adopt the right economic policies and to execute development programs efficiently. Such skills are not plentiful in underdeveloped areas and it is vitally important that this shortage be overcome as rapidly as possible. It is the purpose of the new Institute to help achieve this objective by providing each year a concentrated course of study on development problems for selected key officials from our member countries. In the first course 14 such officials have participated and I believe they are learning a great deal from each other and from the many distinguished persons from government, business and the academic world who have led seminars at the Institute or given lectures on subjects of special interest. Although the facilities of the Institute can be made available only to a relatively small number of participants each year, I feel confident that the effects of its work will, over the years, be of substantial and cumulative significance.

Turning now to the finances of the Bank, I am glad to report that they continue in good order. Repayments of principal and interest have been made
without interruption, and the reserves of the Bank now total nearly $216 million, including over $70 million in the Special Reserve.

We have enjoyed growing support from the private investment market in the past year, with financial institutions showing increasing interest not only in purchasing portions of loans from our portfolio but also in participating directly in our loans at the time they are made. We have, in fact, had participations by one or more banks in 27 of the 37 loans made since the middle of 1954, to a total of $40 million, all without our guarantee. Equally encouraging has been the tendency for both participations and portfolio sales to involve longer maturities. I want to invite attention, too, to the extent to which new funds have been provided for the Bank's operations by non-dollar countries. In the calendar year 1955 over fifty per cent of the Bank's portfolio sales were placed outside the dollar area. While there was no issue of Bank bonds on the American market during the year, we floated issues in Holland, Switzerland and Canada, totaling the equivalent of $37 million. All of these issues, I am happy to say, were successful.

There have been many indications recently of an awakening interest on the part of private capital in overseas investment. The past year, for example, has seen the creation of several new private foreign investment institutions, which have the backing of experienced banking houses from several countries. And while the actual flow of new overseas private investment has not yet greatly accelerated, I discern encouraging signs that previously hesitant investors are now adopting a more affirmative attitude.

I consider these signs auspicious for the Bank's new affiliate, the International Finance Corporation, which I expect will come into being within the next few months. The Bank has supported the IFC proposal since it was first put forward five years ago in the belief that an international agency able to finance private enterprises without a government guarantee and to
supply venture as well as loan capital would be able to do much to stimulate increased productive investment in the private sector. The charter of the new Corporation requires a minimum membership of 30 countries, whose capital subscriptions total at least $75 million, before it can come into being; as of now, 19 countries, whose subscriptions aggregate over $57 million, have completed the necessary formalities. The amount of capital at IFC's disposal will not be large in relation to the world's needs for the type of financing which it will provide. But IFC will always be investing in partnership with private capital and it will seek to revolve its own funds as rapidly as possible by selling its investments to private interests whenever it can do so at a reasonable price. In this manner, we hope that IFC, despite its relatively modest capital, may be able to generate a substantial flow of investment from other sources. Detailed plans for the organization and staffing of IFC are being prepared by the staff of the Bank and I anticipate, therefore, that the new Corporation will be in a position to consider investment proposals quite promptly after it comes into existence.

II.

Let me turn now from this review of the Bank's own activities to a consideration of some broader issues.

In all long-term endeavors -- and our common labors to promote economic development are no exception -- it is useful at intervals to stand away from the problems upon which we have been concentrating, to look back on the path along which we have come and to examine afresh the direction and pace of our progress. Today's debate, coming as the Bank is about to complete its first ten years of operations, seems to me an appropriate occasion for just such a taking of our bearings.

When the Bank opened its doors for business in June 1946, the economic situation in the world -- and I am talking today of that part of the world
represented by the Bank's 58 member countries was dark indeed. Productive facilities throughout Western Europe and in parts of Asia had been devastated to an extent unparalleled in previous experience. Normal trade patterns had been seriously disrupted; governmental and industrial organizations had not yet recovered from wartime dislocations; and in many countries there was a pervasive mood of spiritual exhaustion. Even among those nations which had escaped the direct ravages of war, many were suffering from the cumulative effects of undermaintenance and underinvestment and from the distortions in their economies which resulted from the material shortages and inflationary pressures of the war period.

Complicating the situation, too, then and since, have been political problems of no mean magnitude. I refer not just to international tensions, serious as these have been and causing as they have a substantial diversion of resources from productive to military purposes. I refer also to the need for establishing wholly new administrative mechanisms in areas just emerging from colonial rule and in many cases suffering from a grave shortage of trained administrators.

I recall these facts to you now because the change in the world picture which has occurred in the last decade is so drastic, so dramatic in nature and extent, that we are apt to forget the difficulties which a few short years ago loomed so large and threatening.

What does the record show? In just three or four years, from 1946 to 1949, productive capacity in most of the world regained its prewar level. By 1949, industrial output in Western Europe had caught up with the prewar peak year of 1937, and agriculture in all major regions of the world was about to reach the 1934/38 level of production.

This was an impressive achievement. It confounded the prophets of gloom who had freely predicted that Europe had lost its vitality and was in a period of continuing decline. And it proved the foresight of those leaders on both
sides of the Atlantic who were convinced that, given the substantial support of American aid through the Marshall Plan, Europe could again assume a position of economic strength in a competitive world economy.

One might have expected that at this point, when the work of reconstruction was largely done, there would have been a levelling off of the pace of expansion and that the rate of growth would revert to prewar levels. But in fact, nothing of the kind occurred; every set of figures which we have been able to compile tells the story of an economic advance since 1949 almost without parallel in modern history.

Take, for example, the case of industry. In the period from 1913 to 1948/49, world manufacturing output grew by less than 2-1/2% per annum; since then, it has grown at the extraordinary rate of over 6% per year. It is a striking fact that, by the end of 1955, the world's manufacturing output was almost twice as high as prewar.

Interestingly enough, there has also been a sharp increase in food production. From 1913 to 1948/49, the average growth was just over 1% per year; since then, thanks largely to increased productivity, the annual increase has been 2-1/2%, or more than twice as much.

We have checked these aggregate figures by taking other indicators of growth -- energy supply, steel output, grain production, gross national product -- and they all support the conclusion that commodity output in the world as a whole has grown at a faster rate, both since the war and since 1949, than in any other comparable period. Indeed, in spite of substantial differences from country to country, and with a few notable exceptions, the postwar rate of growth in almost every country for which records are available has been above its past long-term growth rate.

These production increases have been accompanied by a corresponding expansion of international trade. Since 1948/49, despite the absence of full convertibility of currencies, despite trade barriers, the volume of world
trade has been growing at the unprecedented rate of 6% per year -- a rate substantially above the long-term growth trend of the past century.

There is not time today to analyze all the many factors which have contributed to this remarkable progress. Certainly a large role was played by the high level of investment, both public and private, which in turn brought about striking improvements in productivity. A large role, too, was played by the maintenance, in most countries through most of the postwar period, of economic and financial policies conducive to full employment. And while there have been undesirable artificial stimuli in some countries and during some parts of the period -- inflation and the Korean war are the examples which come most readily to mind -- the relative ease with which readjustments have generally taken place as and when these temporary stimuli were removed has been most encouraging.

The global figures which I have cited conceal, of course, substantial regional and national differences in the rate of advance. Yet it is worth noting that, contrary to popular belief, the greatest advances have not always been achieved by those countries already furthest advanced. The rate of growth in Latin America since the war, for example, has been faster than in Europe, and faster in Europe than in the United States. Thanks in part to favorable changes in the terms of trade, the Latin American countries as a group have increased their gross national product by something like 5-1/2% per annum, compared with roughly 5% in Europe and 4% in the United States. I have been unable to obtain comparable data for Asia; but we do know that the rate of investment has gradually been rising in India, and the same is probably also true of Pakistan. Certainly all of us familiar with developments in Southeast Asia and the Middle East can bear witness, with or without supporting statistics, that the rate of investment activity and the resultant output are, broadly speaking, higher than those areas have known during our lifetime.
I do not wish what I have said to give a false impression. The post-war rate of growth, however encouraging in itself, is certainly no cause for complacency. In the first place, due to population increases, the rate of growth in per capita incomes has been far lower than the rate of increase in national income. And even more important, despite the postwar growth, the absolute size of the national income in large parts of the world is still abysmally low.

Yet it remains true that we have been living through a period of very rapid expansion and most of the elements of strength which have characterized the past few years appear to have been long-term and not temporary factors. As a conservative banker, I would be the last to suggest that we should proceed on the assumption that the postwar rate of growth will necessarily continue unabated. To the contrary, caution requires that in making our long-term plans, we take into account the possibility that growth may be interrupted somewhat more frequently and more disturbingly than has been the case since the war. Nonetheless, given freedom from any major hostilities and reasonable adherence to the kind of policies I shall mention later, the prospect appears to be that we may go on enjoying a high rate of increase in production, income and trade.

Forecasting future economic growth is always chancy business. Yet the Bank, as a lending agency making loans of 15, 20 and 25 years' duration, is necessarily committed to the future in many parts of the world and we are committing ourselves more deeply every year. In undertaking those commitments, we must make assumptions as to the likely trend of economic developments and among the assumptions we do make are the following, taking as given that there will be no major war:

(1) So far as concerns the United States and Western Europe, the prospect appears to be for continued substantial increases in productivity and for continued high demand. If, to be conservative, one applies a substantial
discount to the postwar rate of expansion, it is still difficult to foresee an over-all growth rate of less than $3 - 3\frac{1}{2}\%$ per year, and it may well be higher. Even taking the lower figure, this would mean roughly a doubling of the national income of the United States and Western Europe in just over 20 years.

(2) Continued economic expansion in the industrialized countries should, of course, provide a continued high demand for the raw materials and agricultural products exported by the underdeveloped countries. So far as concerns Latin America, this is likely to be of particular benefit to the metal-producing countries. Growth in Latin America's income from agricultural production is likely to be lower in the years ahead than in those just past because the highly favorable postwar movements in the terms of trade for agricultural products are not apt to be repeated; the countries producing coffee and wheat, for example, may well have some difficult problems of readjustment. On the other hand, the potentialities for further industrial expansion in the area seem very substantial and the realization of these potentialities should be aided by the growing trend on the part of the Latin American countries to adopt realistic exchange policies. On the whole, therefore, the prospect in Latin America is for an over-all rate of growth which, although somewhat lower than since 1946, will still possibly remain higher than that of the United States and Europe.

(3) The prospects in Asia and the Middle East are more difficult to assess. Past experience gives us reason to believe, however, that those countries whose governments are pushing development in an orderly fashion and with continuity of purpose are likely to maintain a rapid rate of growth. India and Japan are cases in point. Even if India should not be able to reach the target of a $4-1/2 - 5\%$ annual increase in total production set in the second Five Year Plan, there is little doubt that it will at least realize an expansion of national income at a higher rate than heretofore and
substantially greater than the rise in population. Many of the other Asian countries have also taken important steps to organize themselves for a systematic and sustained development effort, the effects of which should be considerable in the next decade or two. The oil-producing countries of the Middle East are, of course, in a good financial position to advance their development programs at a faster pace than during the past ten years, and in the other countries of the Middle East, too, there appears to be a greater and more vigorous push than before to expand productive output. As I have already indicated, the prospects for different countries vary greatly -- important producers of wheat and cotton, for example, may suffer more in the future than they have up to now -- but over-all our impression is that the economies of Asia and the Middle East will grow more rapidly than in the past, although as a group they are not likely soon to reach the rate of growth of the industrial world.

Time does not permit me to undertake any comparable discussion of other important areas comprehended within the Bank's membership, such as Africa, but I do want to state that, in our opinion, the rate of expansion in Africa is likely to be at least as high as it has been since the war, and for most African countries probably noticeably higher.

The picture I have drawn is, I know, one of dynamic growth; but in assessing trends we have taken, as the Bank necessarily must, a conservative view of the factors which in our opinion are likely to be operative. Indeed, if I were to venture a personal opinion as to the likely shape of things to come, rather than describing the assumptions made by the Bank as the basis for its long-term decisions, I might well be even more optimistic.

What, then, is the significance of all this for the economic development effort as a whole and for the operations of the Bank in particular? The important thing is, I think, that the underdeveloped countries, as a group, in
planning their development activities, should be able to look forward with confidence to the support which an expanding world economy and an expanding world trade can supply. This expansion should provide, too, a favorable environment for the introduction of new techniques into those underdeveloped countries willing and able to take the necessary steps to encourage productive investment. And it should mean, in those same countries, greater scope for Bank investment as the tempo of their economic activity increases and with it their need for basic capital facilities.

But let me emphasize that the extent to which any particular country is likely to benefit from expanding world output and expanding world trade will be largely determined by its governmental policies. I have in mind principally those policies which directly affect the investment climate and particularly the climate for private investment, both local and foreign.

Creation of a favorable climate for private investment means many things. It means maintenance of economic and financial stability. It means release of individual initiative by giving private citizens a greater incentive to invest through such measures as reform of land tenure systems and comparable changes in the social structure. It means encouraging private enterprises to take risks by assuring them the opportunity to earn appropriate returns over a long period if they are successful in their operations. It means resisting excessive nationalistic tendencies which, however emotionally understandable in the light of their origins, nonetheless effectively retard the inflow of foreign capital and prevent the potential recipient country from realizing the economic advantages which such investment could bring.

I attach great importance, too, to the willingness of the governments of underdeveloped countries to take the long view, to forego spectacular short-term achievements in favor of more fundamental long-term objectives such as general education, the training of technicians at all levels, and the creation of a competent and effective public service.
And I would stress, finally, the great importance to the development effort of action by the industrial nations to bring about a further reduction of trade barriers and to assure an adequate flow of investment capital to those underdeveloped countries which show themselves ready to welcome it and to employ it effectively.

Yes, we have made significant progress in the postwar decade, but much remains to be done if we are to solve the basic problems of development satisfactorily. Yet the progress made up to now demonstrates that those problems are not intractable. At the very least, it justifies the expectation that continued and intensified efforts to accelerate the pace of development may in time achieve their objective.