ANNUAL ADDRESS BY

EUGENE R. BLACK, PRESIDENT OF THE BANK

JUST TEN YEARS AGO THIS MONTH it was my honor to address this meeting for the first time as President of the Bank. It is reassuring to recognize among you today many old friends who, over the years, have done so much to help realize the promise of this institution. Perhaps you will forgive me if I look at our position this year with reference to where we stood in 1949. For I have been struck by how far our work has taken us since that not-so-distant date.

In that year—1949—the foundations of the Bank's organization had been soundly laid by my two predecessors in office, and the pattern of our operations had been set. Under Mr. Eugene Meyer, whose death this year saddened us all, and under Mr. John McCloy, the Bank was primed and readied for its tasks. It was my good fortune that, before I came to this office, so much of the preparatory work had been done.

By June 30, 1949, the Bank had invested more than half a billion dollars in the reconstruction of countries in Western Europe. But we had made only three truly development loans totaling a little more than $100 million, and there was more than a little impatience with our lack of progress in this direction. Earlier we had broken the ice with our first bond issues: two in the American market and one in the Swiss market; but outside of the subscription of the United States, only some $12 million in the 18% subscriptions of other members had been made available to us in a usable form. We had yet to induce any private financial institutions to participate in our development lending. We had already established our firm policy of earning at least enough to pay our way; but our lending operations were still much too small to indicate whether we could carry through this policy in practice. We had disbursed more than half a billion dollars equivalent for reconstruction, but scarcely anything for development.

The growth of the Bank over the intervening ten years is a great tribute to the achievements of member countries. As the Annual Report before you sets out in detail, we have in the fiscal year just ended exceeded the equivalent of $700 million in our lending for two consecutive years. And with the $141 million in loans already signed in the current fiscal year I am confident that our present volume is no passing phase.

Over and above our initial reconstruction loans we have committed in all about $4 billion equivalent in development loans—a third of it in the past twenty-four months. Of these development loans we have disbursed nearly $3 billion equivalent in some 30 different currencies—again a third of the disbursements coming in the last twenty-four months.

Up to date we have made 49 successful issues of our securities. And the latest issue was a particularly encouraging one. In August we offered, for placement entirely outside the United States, a new issue of $100 million and received subscriptions of over $200 million. We found we had to make allotments and we ended up placing these bonds with 63 institutional investors in 35 different countries. In eight of these countries no Bank issue had been bought before.

Earlier in the year, as you no doubt will remember, we sold our first issue in the German market. A 200 million deutsche mark issue, it was the largest public issue we have yet sold outside the United States. Today over half the total of our funded debt outstanding is held outside the United States—in 42 different countries. Included are some $680 million in dollar bonds and notes, or about 40% of our dollar debt outstanding.

And over and above our sales of bonds we have attracted to date $590 million equivalent from some 150 commercial banks, insurance companies, and other private and public financial institutions who have participated in our lending without our guarantee in one way or another. These participants have already received from our borrowers more than $260 million in principal repayments.

Another $280 million in principal repayments have been made directly to the Bank and have become available for further lending. Not only have there been no defaults, but some countries have retired their obligations well ahead of maturity. I might point out that the Netherlands—the country which in 1949 was the Bank's second biggest borrower—in 1959 retired the last of its obligations to us—more than ten years ahead of the longest maturity outstanding. Today the Netherlands in keeping with its traditional role in international finance is one of the important suppliers of resources to the Bank. It is not a country rich in natural resources; it feels the pressure of population more than most countries do. This makes all the more admirable the recovery which the Dutch people have made in the past decade through hard work, self-discipline and financial statesmanship.

In 1949 we were 48 member nations; in 1959 we are 68. In 1949 we were financing projects in only eight countries; in 1959 we are financing—or have financed already—projects in 50 countries. In 1949 our outstanding indebtedness was less than $250 million; today it is almost $2,000 million. Over the decade member countries other than the United States have released in a usable form nearly $740 million from their 18% capital subscriptions, a sum that is growing all the time. Our net earnings have risen from $10.6 million in 1949 to $46.5 million in the year just ended; our total reserves, which stood at $22 million in 1949, stand at $433 million today.

And while the trunk of the tree has grown rapidly, the Bank has branched out in several directions not foreseen ten years ago. This month we made our first loan for an atomic power project—the SENN project in Italy. As you know, we approached this matter with great care, sponsoring a study in which many of the world's leading experts on nuclear power took part. We encouraged an elaborate competition among builders of power equipment in order that this might be a thorough and fair test of the cost of this Promethean gift to mankind. That so many nations were willing and able to cooperate effectively in this matter is to me immensely encouraging.

You are all aware, of course, of the Bank's significant role in mediating economic conflicts among member nations. The discussions leading to compensation for the shareholders of the former Suez Canal Company and to settlement of the financial claims between the United Kingdom and the United Arab Republic have been translated into agreements which are now being carried out.

During the year substantial progress has resulted from the Bank's efforts to bring about a settlement of the Indus Waters dispute between India and Pakistan. As is mentioned in the Annual Report, in the spring of this year I paid a special visit to New Delhi and Karachi. I was accompanied by our Vice President, Mr. Iliff, who has been in charge of the negotiations since 1953. In the course of this visit understandings were reached on several important aspects of the problem—about the broad outline of the engineering works which will have to be constructed, about India's financial contribution towards the cost of these works, and about the length of the Transition Period during which India will limit her withdrawals of additional water.

Meantime, the Bank has carried a step further its discussions with friendly governments in regard to the participation by them in the financing of the $1 billion engineering plan which is under consideration. The governments of Australia, Canada, Germany, New Zealand, the United Kingdom and the United States have indicated their willingness to consider contributing substantial sums, subject to whatever parliamentary or congressional authority may be necessary, and subject to the conclusion of an International Water Treaty between India and Pakistan.

Further discussions between the delegations of India and Pakistan have taken place in London during August and September under the auspices of the Bank, and I am happy to report that very encouraging progress has been made in drafting the Heads of Agreement on which an International Water Treaty can be based.

For this, as for much of what the Bank has achieved in the past in this extremely difficult matter, we are indebted to the resourcefulness and persistence of Mr. Iliff.

The issues which still remain to be resolved constitute what, in my view, is a narrow gap. It would be profoundly disappointing—and I am sure the disappointment would be widely shared in this room—if this gap were not closed. I am confident that we can rely upon the statesmanship of Prime Minister Nehru and President Ayub to see that it *is* closed.

This project is an enormous undertaking—one which is bound to test the mettle of both engineers and financiers as few development projects have ever done. Only the skills and resources of an international community could measure up to this challenge. That they are doing so, and that the Bank is being allowed to play a part, should give all of us added confidence in the worth of the international approach to economic development which we have been advocating and pursuing for the past ten years.

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And then, of course, there are the other branches of our activities which have for some time now been integrated into our regular operations. There is our staff college, the Economic Development Institute, which, in addition to providing a forum for senior government officials to exchange ideas and experiences on common problems, is earning for us an ever wider circle of friends and stimulating critics in those countries which are our primary concern. These men are the men who will be making the key development decisions in the underdeveloped world of tomorrow.

Our technical assistance services have steadily expanded; they include resident advisers in a number of member countries and a continuing traffic in general survey missions and other, more specialized missions. At the Bank's headquarters six months training alongside the Bank staff is offered regularly each year to junior officials from member countries. So far 91 men and women from 52 countries have availed themselves of these facilities.

We have established contacts with industrial development banks, public and private, in a large number of member countries, and through these have come to know something of the hundreds of small enterprises which, just as much as the big dam or the railroad, are contributing new jobs and new production for a better material life in the underdeveloped world. Just since July 1 of this year we have announced four loans to industrial development banks—our first to the newly-established Industrial and Mining Development Bank of Iran and our second each to the Austrian Investment Credit Company; the Industrial Credit and Investment Corporation of India; and the Pakistan Industrial Credit and Investment Corporation. This latter corporation was established, with help from the Bank, only 18 months ago.

I would like to say a word about private international investment. As you know, the World Bank has always carefully observed the principle, incorporated in its charter, that it will not make investments for which private funds can be obtained on reasonable terms. But we have on many occasions and in many ways tried to lend our support to this kind of investment, notably, of course, with our sponsorship of the

International Finance Corporation. It is a source of great satisfaction to me that private international investment is now responding, from a great number of countries and over a wide range of industries, to the opportunities and challenges of economic development in our time.

We will continue our support of private investors where we can. But I wonder if there is not a place now for an entity, made up exclusively of private international investors from all countries, which could more effectively tell the story of what is being done and champion the kinds of policies which attract such investment. This entity, if it were truly international, might help in finding solutions to differences which have actually arisen between governments and foreign investors. This way it could serve to broaden areas of agreement and increase the awareness of the very great opportunities which exist for the expansion of private international investment.

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It is clear that we have come a very long way since 1949. I would like to say that no executive could have had more cooperation and encouragement from his directors and stockholders than I have had. This fact, without which there would be no record of progress to cite, has been dramatically symbolized in recent weeks. On September 1 the Governors voted overwhelmingly to approve the proposed doubling of the Bank's authorized capital. By September 15 last the required minimum of $7 billion equivalent in subscriptions to make this doubling effective had been received. Today a total of more than $8 billion in capital increases has been subscribed. And we confidently expect that other member countries that have not yet done so will send in their increased subscriptions by the end of the year.

Over and above this a large number of member countries have asked for special increases in their subscriptions, reflecting the economic progress they have made. In particular, Germany, Japan and Canada will take a total of $650 million equivalent in special increases.

This is truly an impressive vote of confidence in the Bank. The largest and most elastic supply of international capital for the development of the underdeveloped world lies in the private capital markets of the industrialized countries. The World Bank is a major channel between those markets and the countries where international capital is so much needed. The action you have taken has enormously increased the usefulness of this channel. Investors the world over now have notice that a preponderant majority of the nations which make up the membership of the World Bank have renewed and replenished their guarantee behind our securities. There could be no more effective expression of support for the Bank and what it stands for.

I cannot let this opportunity pass without also thanking the staff of the Bank for their constant and tireless support. I have been unusually lucky in having as subordinates a corps of professional men and women drawn from more than 48 different countries. The loss this year of one of our most able executives, our Treasurer, Mr. Henry Riley, has been keenly felt by all of us. Mr. Riley exemplified the kind of devoted service which has come to characterize those who are making a career in this Bank.

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In reviewing the progress the Bank has made, I have cited but one of many indications of how nations in the past decade have come to work together in the name of economic development with a degree of success which confounds many of the gloomy prophets of 1949. I might have cited instead the large volume of investment funds of all kinds which is today flowing across national boundaries; or the rise in world trade over the past ten years; or the growing number of countries which are mastering the arts of fiscal and monetary control and the new public attitudes which come with this mastery and are fostering it.

But perhaps the most timely indication of our progress is the fact that today there is a serious move to broaden the international channels through which new and additional resources may flow into the development of the underdeveloped countries. I have long advocated more emphasis on multilateral responsibility for these matters. The proposal of the Government of the United States that the Bank's techniques and experience would provide a good environment for a new departure in this direction is, of course, very encouraging to me.

Since the proposal for the establishment of an International Development Association will probably occupy much of your discussion this week, it would obviously be inappropriate for me to tender any detailed comments. But let me renew my welcome for the American initiative and, at the same time, exercise a banker's prerogative by emphasizing one or two important general principles which I hope you will allow to underlie your discussions.

In the first place we must not forget that no new mechanism for the administration of development aid can diminish the responsibility which is shared by all members of the international community to keep open and active the channels of international trade. Aid can never be an acceptable substitute for trade. And international investment can never prosper if it is not built upon a solid foundation of international trade.

From the point of view of the underdeveloped countries, there is ample evidence that economic growth cannot be pursued successfully without a dynamic expansion of foreign trade. "Import substitution," that is, the development of local production which will reduce the need for imports, has its place in the process of international readjustment, but I still know nothing that can provide a real substitute for exports. Exports become all the more important to the extent that countries assume obligations to service foreign public or private investment in their territories. The nature of this foreign exchange transfer problem has by now become so obvious that it hardly bears repeating.

The lesson has equally important implications for the industrialized countries. For these countries, too, aid is no substitute for trade in their effort to meet the pressing current needs of the underdeveloped world. But it is also true that aid today must be followed by trade tomorrow if the aid takes the form of loans which must be repaid. Again I am making the familiar point that a creditor country must be prepared to accept eventual repayment in goods and services if the structure of international indebtedness is to be sustained.

There are some in the creditor countries who advocate putting foreign aid on a grant-in-aid basis in order to escape the eventual necessity of taking repayment in foreign goods. On the other hand, there are some who advocate putting all aid on a 100% hard loan basis, ignoring the virtually insuperable transfer problems which this would create. Even if the creditor country is prepared to continue lending and relending on a large scale indefinitely, so that its actual capital investment need never be repaid, the mounting burden of interest can itself become a formidable problem.

It is with such thoughts in mind that I have often endorsed in principle the idea that a significant part of development aid should be extended on terms providing some relief from the transfer burden. I have repeatedly observed that the justifiable and really minimum needs for development capital in the underdeveloped countries are greater than can be met through conventional loans. I think there is general agreement that the International Development Association should be so designed as to enable the World Bank to introduce alongside, and in addition to, its regular operations, a more flexible kind of development lending.

There will still be, however, a large volume of international investment, both public and private, which can be serviced only through the traditional processes of international trade. New and less burdensome forms of aid may ease the pressure on the import policies of the industrialized countries; they may allow more time for gradual adjustments in international trade patterns. But these adjustments are bound to come if we are ever to reach a balance in world trade at a high enough level to allow the underdeveloped world to pay its own way.

Many trade restrictions today, particularly on agricultural products and industrial raw materials, already stand in obvious contradiction to the professed aim of the more advanced countries to aid the underdeveloped lands. And to these restrictions must be added the continuing problem of commodity surpluses and consequent fluctuations in the income of the primary producing countries. Nothing we may do here should relieve member countries from the need for addressing themselves to these matters with new vigor and imagination.

There is a second general condition which I think must be met if your discussions regarding an International Development Association are to lead to constructive results. That condition is that you agree at the start that development aid to be effective must be regarded as being a recognition of and a support for the recipient's own efforts rather than a palliative for mismanagement. One of the surest roads to the defeat of our common objective lies in using such resources as we have available to abet the perpetuation of policies which we know can only distort or destroy economic growth. It is, after all, not the shape of the financial instrument but the presence or absence of the right economic policies which primarily determines the success of an adventure in economic development. This is true whether we are talking about aid administered by national governments or by international organizations—whether we are talking about loans or grants or something in between.

When I say "right policies" I am not talking about a series of more or less rigid formulas, such as might guide the work of a chemist or physicist. The practitioner in economic development is more like a gardener; he is driven to protest when he sees an economy bowed down with an excess of projects and programs which overtax the supply of available resources, just as a gardener will protest when he sees a fruit orchard over-planted with trees. He is bound to attack the debilitating action of inflation as the gardener attacks the weeds which suck the fertility of the soil from the wholesome flowers. He develops a practiced eye for unproductive costs, just as a gardener is quick to spot the deadwood in his orchard. The essence of both professions lies in increasing productivity in their respective commonwealths by thinning out the growth which oppresses the soil, by rooting out the profitless weeds and lopping off the dead limbs.

Is it too humble—or too fanciful—an analogy that we should make it our guiding purpose to be the gardeners in the fields of economic development. I do not see how there can be a lasting agreement among sovereign nations to pool their resources in aid of the underdeveloped world unless it is based on full respect for some such professional approach.

Should the underdeveloped countries simply want money and not development capital—that is, capital administered to achieve its development purpose—then I suggest this would be the wrong place to come. Should the industrialized countries seek merely to achieve some immediate tactical purpose—whether for commerce or diplomacy or domestic politics—and not to find a more effective way of channeling a measure of their resources into the orderly growth of the underdeveloped world, then it would not be the path of international cooperation on which they would be treading.

Let us not forget this; whatever we here may do, economic development will go on. It has become an irresistible force with an impetus behind it that we can increase but cannot check. If we use, rightly, our energy and our resources I believe we can make this force serve the ends of peace and tolerance among men and nations through lifting the burden of poverty from the individual and so free him to exercise his own creative energies. Therein, I am convinced, lies the hope for our own generation and for posterity.