ADDRESS BY EUGENE R. BLACK, PRESIDENT OF THE BANK, IN PRESENTING THE NINTH ANNUAL REPORT TO THE BOARD OF GOVERNORS, SEPTEMBER 25, 1954

This is the sixth of the Annual Meetings of the Board of Governors that I have had the honor to address, and I am glad to have yet another opportunity of meeting so many old friends again at the Bank's headquarters here in Washington.

I am particularly happy to greet two new member countries, Indonesia and Israel, both of whom have joined us since we last met.

We look forward here not only to the formal deliberations of this Annual Meeting but also to the renewal of personal contact with the Governors that has proved so rewarding in the past. We greatly value the opportunity which discussion, formal and informal, gives us to evaluate the Bank's work, and to exchange and develop new ideas that can be translated into action in the performance of the Bank's day-to-day tasks.

Let me say a special word of welcome to our guests. We are favored at this meeting by the attendance of many distinguished private citizens of our host country and of 16 other countries in both hemispheres. I hope these few days will give our guests the opportunity to meet each other and to compare notes on matters of common interest, as well as to acquaint themselves with the affairs of the Bank.

In its eighth full year of operations, the Bank has continued to be a growing institution. The statistics in which we customarily summarize our activities are still moving along upward curves. I should like to mention a few of the figures to you quickly:

Our annual report shows more loans—26—and a greater amount of lending—the equivalent of some $324 million—than in any other fiscal year. Since the end of the fiscal year, we have maintained that pace and a little bit better, with $90 million more of lending. Our gross total of loan commitments, since the beginning of operations, now amounts to something over $2 billion.

Disbursements on loans, at $302 million in the last fiscal year, moved faster than at any time since the exceptional requirements of the reconstruction loans made in 1947. Disbursements repayable in currencies other than United States dollars, equivalent to $82 million, were markedly higher than in any preceding year.

It was the Bank's most active year of borrowing. In the 12 months since the last Governors' Meeting, we have sold eight issues of bonds in various currencies amounting to nearly $300 million.

The Bank has continued, at the request of member countries, to give advice on forward steps in development—particularly in the formulation of development programs and on the mobilization of local capital. Three of our general survey missions were organized during the year to draw up program recommendations: one to Nigeria, headed by Mr. Broches, a senior member of the Bank's staff; one to Malaya and Singapore, for which we were fortunate enough to have the services of Sir Louis Chick as Chief of Mission; and one to Syria, under the distinguished leadership of our good friend, a former Governor of the Bank, Dr. Pieter Lieftinck. The report of the mission to Nigeria was made available earlier this week, in Lagos and Washington, and the other reports are nearing completion.

Two features of the Bank's operations during the year seem to be particularly significant and encouraging. The Bank was established, among other things, to mobilize capital on an international basis, and to do it in close cooperation with private capital. We have done both with increasing success.

Most of our lending during the year was based on funds raised in the private market. This, of course, was not new: the Bank's bonds for some time have served as one of the chief means whereby private loan capital is deployed internationally.

What was new, however, was the scale on which the Bank was able to put portions of its loans into private hands. We lent, as I have mentioned, $324 million during the year. At the same time, we had sales from our portfolio and direct participations by private investors in new loans amounting to more than $34 million.

One striking fact about these transactions was that in nearly 80 percent of them, the other investors assumed the risk, without any guarantee by the Bank. A second striking fact was that participations, all of these without Bank guarantee, were enlisted in five of our seven most recent loans. I think it is safe to say that private participations, rare in preceding years, will become a continuous and growing part of the Bank's operations from now on.

A still more conspicuous development during the year was the increasing internationalization of the Bank's financial resources. The operations of the Bank, in the beginning, were inevitably based on dollars drawn from the United States capital subscription and from the capital market in the United States. From this base—which is still, and for some time must continue to be, our most important base—we took important forward steps in 1951, when we sold our first public offering of non-dollar bonds, in the United Kingdom, and in 1952, when the whole of the original Canadian dollar subscription to our capital became available for lending.

At our Annual Meeting in 1953, I was able to report that the European members of the Bank were releasing their currencies to us in encouraging amounts. Now I can report a like development in the Bank's access to capital markets outside the United States.

Of the eight bond issues I mentioned a moment ago, three were sold for United States dollars; but investors outside the United States took up nearly half the amount offered—more than $100 million of a total of $225 million. Our most recent issue, a $50-million placement of five-year 2½ percent bonds concluded earlier this week, was a United States dollar issue sold entirely outside the United States. Subscriptions amounting to approximately $78 million were received for these bonds and allocations made to investors in 23 different countries. Bonds of this issue traded yesterday in New York at 101, a full point premium over the issue price of par. Five other offerings, during the twelve months, were sold for currencies other than United States dollars: one issue for Canadian dollars, two for Swiss francs, one for sterling, and one for Netherlands guilders, which was our first quotation in that currency.

Of all Bank bonds sold in the last twelve months, investors outside the United States have bought three-fifths.

And of every $1 million which the Bank has had available for lending since the beginning of its operations, $400,000 has now originated outside the United States.

These important developments in the operations of the Bank are symptomatic of the improvement in world production and trade during the last five years, especially in Europe. With some regrettable exceptions, financial stability has largely been achieved. The debilitating effects of inflation, both on the balance of payments and in distorting patterns of production, have been largely eliminated. The complex and uneconomic system of bilateral payments agreements and of barter arrangements is being dismembered. The dollar problem, if not finally solved, seems to be coming under control.

The Netherlands is an outstanding example of the extent of the improvement in the economic position of our European members. The Bank's second largest loan was granted to the Netherlands in 1947 to aid in reconstruction. Since then the Dutch position has so improved that the government has been able to agree to the release to us of 100 million guilders from the Dutch subscription to our capital as well as to the flotation by the Bank of a 40 million guilder bond issue in the Dutch capital markets. Recently the Netherlands government has also made prepayments on the 1947 loan amounting to $52½ million.

I would like also to call your attention to the case of Austria. After the end of the war, Austria was beset by difficulties, not of her own making, which were discouraging to any foreign investor. In 1949 she needed almost $200 million in foreign aid to cover her external deficit; but today she has achieved equilibrium in her balance of payments.

In July the Bank made its first loan to Austria and this loan, incidentally, is another illustration of how the improvement in Europe's economic position has affected the Bank's operations. It will be disbursed entirely in European currencies, largely in Italian lire, Dutch guilders and Swiss francs and it is the seventh of the Bank's loans to be disbursed entirely in currencies other than dollars.

These are examples of encouraging progress. Especially during the past two years, our European members have more and more resumed their role of exporters of capital to the world. They are once again able to produce and finance their share of the capital equipment needed to hasten the development of other countries. The Bank welcomes this greater availability of credit and, to the extent that private capital cannot directly meet the needs, we expect to play our full part in promoting this increased flow of capital into the channels where it will do the most good.

The Bank itself has large amounts of member currencies which so far have been wholly or partly inconvertible and therefore of limited use. Let me repeat what I have said so often, that I consider the liberal release of these currencies to be of extreme importance. I want to add now that I believe that the time has come when the conditions attached to the Bank's use of these currencies should be reviewed and relaxed to the greatest extent possible. The Bank, as well as the Fund, has a vital interest in all evidence of progress toward convertibility because it is at the same time the promise of further expansion of long-term investment in development.

Some of the currencies we need will come, I hope, from the greater availability, without restriction, of the capital subscriptions of member countries. We will also go on raising capital by issues of our bonds.

There is still another way in which we may utilize these capital resources. It is entirely natural that, in a world in which financial equilibrium has been disturbed for a long time, the confidence of investors returns only gradually and that capital is therefore lent at short term. We offer a vehicle for capital of this kind in the form of loan participations and sales of our borrowers' securities from our portfolio; and as I mentioned some moments ago, these activities are increasing rapidly. If private funds are still hesitant about undertaking long-term commitments, loan participations can be arranged with such funds taking short and medium term maturities while the Bank itself takes the long maturities.

We must, at this stage of the world's recovery, I think, remember the consequence of what happened in the 1920's and, bearing that example in mind, we must realize that the growth of credit brings its own problems. As the availability of capital and capital equipment has risen, we have passed from a seller's to a buyer's market and a competitive race is developing among suppliers all over the world. This takes the form not only of competition in terms of price, quality and delivery date, but also competition in the offer of medium-term suppliers' credits. The Bank does not know—nor, I think, does anyone know—the exact volume of credits of this kind now outstanding. But, as one positive measure toward meeting the situation, I plan to explore the possibility of establishing an information service which would centralize all available data on the total volume of suppliers' credits outstanding.

Suppliers' credits, I need hardly say, are an appropriate type of international financing when applied to the proper transactions. But they can be misused and over-used, and there is some disturbing evidence that this is happening—too much credit given, under the pressure of competition, sometimes on inappropriate terms and for the wrong purposes.

The situation, in my view, is becoming serious. The danger is that bad credit will drive out good, and tend to bring international investment back into disrepute—this at a time when the world is still negotiating adjustments of debts incurred during the earlier period of excessive borrowing, over-eager lending and mis-investment to which I referred just now.

Suppliers' credits can serve a useful purpose in financing the normal, short-term flow of imports or in financing investment projects which can pay their way within the term for which the credit is given. But, although the availability of these credits may seem to present an opportunity to speed the rate of development, there is a risk that the use of short-term finance may be pressed beyond these limits. When this happens, the result is likely to be unfortunate.

Nor can the balance of payments aspects of these transactions be overlooked. Experience teaches us that it is imprudent to count on a steady flow of capital year after year. Reliance on suppliers' credits, indeed, in general means reliance on something particularly volatile. The importing country may run into payments difficulties that check further investment from outside. The exporting countries themselves may experience payments difficulties that force them to insist on cash payment. Or a boom in the world or home market may make it possible to sell for cash and reduce the need to extend credit. There is the risk, in other words, that the borrower may have raised his rate of investment only to find that he must later make, perhaps, a drastic cutback and that what was looked forward to as a period of sustained economic advance may end as a period of stagnation or, even, of retrogression.

The manner in which suppliers' credits are offered, moreover, sometimes results in projects being undertaken which are far from the highest priority in developmental needs. The exporting country wishes to boost its exports and therefore offers credits for financing a project using its equipment. The manufacturing supplier of equipment naturally welcomes any opportunity to increase his sales and he can certainly not be blamed if he takes advantage of whatever credit facilities may be made available. And the importing country may feel that the credit, being available, should be accepted even if not for the most useful of purposes nor on the best of terms and even if, as often happens, under these arrangements a higher price for the goods must be paid. This is contrary to the interests of the importing country and may result in slower rather than faster development.

Long-term capital funds represent, in general, the most appropriate method of financing development projects requiring heavy capital equipment, from the point of view both of the nature of the projects themselves and of the impact on the borrowing country's balance of payments. But any potential long-term investor—and not only the International Bank—must take into account the total external debt burden of the borrowing country. So an excessive use of short or medium term credit must necessarily diminish a country's access to long-term capital funds. In short, the indiscriminate use of credit of this kind may increase the costs of development, may interrupt the continuity of effort, may upset the balance of investment, and may make the goals of investment harder, and not easier, to reach.

The increase in competition in suppliers' credits also has its dangers for the exporting countries. Suppliers' credits are usually financed only in minor part by the suppliers themselves. Most of the industrial nations—and I include not only European countries but the United States, Canada and Japan—now have one or both types of official institutions to give financial aid to exports. One type finances the export of capital goods; the other, without supplying capital, underwrites the risk. These suppliers' credits are usually made largely at the ultimate risk of the government of the exporting country.

I would like to make clear, of course, that I am not talking primarily about the flow of private investment capital. If the supplier were venturing more of his own capital, he would necessarily have to be more concerned with the financial soundness of the investment and with the creditworthiness of the country. But the result of the supplier's relative freedom from risk is that he is constantly entreating his own government to grant more liberal credit facilities. In each of the exporting countries governments hear the complaint that other governments are being more liberal. So a race is developing, a race in which none of the competitors can win because the faster each one goes, the faster all the others go.

Indeed, I think we are approaching a situation about which a warning was sounded ten years ago at Bretton Woods. The spokesman of one of the delegations there pointed to the danger, saying that, in a time of pressure for exports, "countries would embark on bilateral credit arrangements no doubt linked with deals relating to the purchase and sale of goods; and as soon as certain countries began to adopt this course others would find that they had to follow suit to protect their trade interests. It is difficult," the spokesman went on to say, "to imagine a more fruitful source of international dissension than a competitive trade and credit expansion program of this character."

I certainly do not wish my remarks about the dangers inherent in an undiscriminating use of credit to be interpreted as a warning against a sound increase in credit accompanying a healthy expansion of international investment, particularly in the private sector. At the moment, I am happy to say, the world is enjoying relatively prosperous conditions of high employment and trade and the total volume of international credit is probably still expanding. But, if these conditions are to continue and if the flow of international trade and investment is to reflect a growing and dynamic world economy, the world's trade policies will need to be liberalized. Last year I said that "merely to refrain from reversing the downward trend in United States import tariffs over the last two decades would not be enough to put international trade on an even keel"; and that there was need for a further reduction in the obstacles to imports.

I share the disappointment of many of you that the United States Government did not find it possible to put into effect this year the trade liberalization features of its foreign economic policies, and I welcome the President of the United States' recent statement, which was reaffirmed by Secretary Humphrey, that it is his intention to give high priority to them in next year's legislative program.

The first of the Annual Meetings of the Governors at which I had the honor of addressing the Governors was six years ago. I hope the Governors will forgive me if, as a privileged witness of some of the events of the past six years, I end these remarks briefly with a personal and impressionistic retrospect.

In 1949, the ruins of war were still apparent in Europe. Famine was abroad in some parts of the world and the threat of it was only thinly veiled in other parts. Reconstruction was far from complete; the organized attack on development problems, evident in many countries now, had scarcely at that time begun.

The contrast today, as we all know but perhaps too seldom remember, is quite remarkable. The facts about recovery in Europe are too familiar to need repetition; let me remark only on the obvious: that the revival of production there has been a major factor in the exchange of goods throughout the world at a rate never before experienced.

Advances in the underdeveloped countries have been harder to observe—if for no other reason than that these countries extend over so much of the earth—and the advances have in any case been uneven. But to me they are a source of immense encouragement.

The process of economic development is not easy to set in full motion, involving as it does a host of technical skills and a complex of behavior patterns that took centuries to evolve in the industrial world of today. Yet the process is accelerating.

If we had a magic carpet here this morning to take us all around the globe, I think we would be struck by the many evidences of this progress. We would see tractors working on land that before had only known the bullock, and we would see small factories working where industry had never appeared before. We would see truck roads replacing donkey and camel trails and new farms being cleared along these roads. In the mountains, we would see streams being harnessed to produce energy, and, in the deserts, hundreds of miles of pipe bringing natural gas to productive use. Down in the villages, we would see grain being milled by machinery, instead of being pounded out by hand, and electric light replacing the old oil lamp.

I'd like to give you one small illustration of what I am talking about. This concerns one of our loans to the Federal Electricity Commission in Mexico—and the installation of a small diesel power plant of only 600 kilowatts generating capacity. We financed the installation of this plant in the rural town of Tecuala, in Mexico's west coast area. In three years' time, with this small diesel plant, here are some of the results: industrial users of electricity in Tecuala have risen from 3 to 33; the town has acquired a public library, a daily newspaper, a radio station, and a night school; Tecuala's population has tripled, and the number of students in its schools has increased seven times. The municipal hospital has installed refrigerators and put in a modern fluoroscope, which is the only one within a radius of 60 miles. The mayor of the town recently said: "I have witnessed our emergence from the dark ages into an age of light."

Now, as I said, the advance in development has been uneven. In some areas it has not occurred at all, and in others the gains have as yet been meager. And we must remember, as one of the Governors well said here a year ago, that we are faced today by a revolution of expectancy.

In many parts of the world, people are less and less content to live in the past or to think in the past. The way to deal with a revolution of expectancy is to turn it into a revolution of achievement and progress.

It is in this kind of a revolution that the Bank can see itself playing a part. In the Annual Report before you, you will find the full range of the Bank's interests displayed—from the mobilization of capital, internally and internationally, to the application of capital to bring about new production and trade. Indeed, in this Report, you can survey our technical and financial assistance to development institutions in many countries, to the construction of electric power capacity of something over three million kilowatts, to the improvement of some millions of acres of farm lands, to the improvement of services on railways in a dozen countries in five continents.

By comparison with what usefully can be done, these figures are modest enough, and I have no illusions about the magnitude and the difficulty of the tasks that face our member countries and the Bank. What I do have is evidence that convinces me, more than ever, that these tasks can be accomplished, and that the revolution of achievement can be won.