

the horizon? What of the widespread rearmament and uncertainties of the future?

First, I would say this, that we must cling to the desire for peace and our will to promote economic progress with courage and determination. We must continue to search every means of improving international economic, as well as political, relations, not omitting to maintain the Fund and Bank as constantly available instruments of economic cooperation.

Secondly, in our economic planning, we must try to detect which of the prevailing forces have basic and long-range significance. It is still to be hoped that clearing political weather will divert public expenditures from military to peacetime purposes. Some of the current inflationary pressures would then be short-lived. Meanwhile, a way must be found to continue and supplement in other parts of the world the great work which it has been possible to undertake with the help of the Marshall aid program.

We face a period of heavy strain on financial and monetary institutions. Considering

the effects on the Fund and the Bank, we must recognize that nothing has detracted from the validity of the purposes incorporated in the Bretton Woods Agreements, despite the fact that so many obstacles prevent us from fully achieving them. The strength and experience accumulated by these two organizations suggest that they will continue to make important contributions to international welfare. In this they will need, more than ever before, the support of their member governments. The times call for a degree of flexibility in their policies, and a capacity for adapting them to changing circumstances, without sacrificing the integrity of their principles. This in turn will require much conscientious and devoted attention on the part of the member governments, the Boards of Executive Directors and the staffs. But the effort will be eminently worthwhile. We must not deny to the millions, who hope for a better world, the fulfillment of the promise of these two institutions that international prosperity, and therefore peace, can be achieved by cooperative effort.

ADDRESS BY EUGENE R. BLACK, PRESIDENT OF THE BANK,
IN PRESENTING THE FIFTH ANNUAL REPORT OF THE BANK
TO THE BOARD OF GOVERNORS, SEPTEMBER 8, 1950

I am happy to be here with you again today and I take great pleasure in formally presenting to you the Fifth Annual Report of the International Bank for Reconstruction and Development. Let me add my thanks, also, for the gracious welcome that has been given us by President Auriol and the French Government officials.

We are all deeply conscious, I know, that we are living and working in troubled times. The grave events that have occurred in Korea have already had their repercussions around the world. Yet, it would be a pity if these events were allowed to obscure the importance of those objectives of economic recovery and development, of balanced trade and the unhampered exchange of goods,

towards which we have all been pressing so actively.

There are some goals that can never yield high place for very long in the life of any nation or any government. Among these, I think is the continual improvement of the conditions in which the individual citizen lives out his span. It was primarily to promote that objective that the International Bank was created. And it is the achievement of that goal towards which the energies of the Bank have been directed.

The present tensions throughout the world seem to me to add to, and not detract from, the importance of our task. Of course, should the situation seriously deteriorate, the progress we have been making in the direction

of orderly economic development may suffer interruption. But short of this eventuality, I am convinced that we can and must press forward along the path we have been following, and indeed that we must press forward at an accelerated pace.

Let me state briefly the reasons prompting me to say this. What is now happening in Korea is not a struggle for a few thousand square miles of land. It is part of a struggle for the hearts and minds of hundreds of millions of people throughout the world.

Perhaps the most powerful single force shaping the course of history in our time is the awakening consciousness of the underprivileged masses of the people that the conditions of poverty, ill-health and ignorance in which they live are not preordained and their deep conviction that they have a right to the opportunity to earn a better living for themselves and a better future for their children.

For those of us who enjoy the great blessing of freedom, it is often difficult to understand the appeal of an ideology which in practice denies to the individual the right to govern his own destinies. But for those less fortunate, freedom means little when it is freedom only to live out their lives in misery and want. In them, the promise of millenium, however ill-founded it may be in fact, is bound to find a response; they see in the promise of change at least a hope for betterment.

We must not, and I trust will not, counter the promise of one kind of millenium with the promise of a millenium of another kind. But neither must we be content to sit by and watch the gap widen between the standard of living of the less developed countries and that of the more developed nations, relying on what are to us the obvious advantages of democracy and freedom to offset the tremendous pressures created by that gap. We can relieve those pressures—we can remove one cause of future Koreas—only if we can hold out a real and well-founded hope of improvement in the material well-being of all men which is essential to their dignity and self-respect. This is a long and arduous

process but at the least we ought to be able to give the ordinary man confidence that his conditions of life will grow better over the years and that his children will have greater economic and cultural opportunities than he himself has enjoyed.

Surely, if such a wide gap between standards of living in various parts of the world did not exist today—if during the last hundred years greater effort had been devoted towards improving conditions in the less developed areas of the world (and I include in that most of Eastern Europe)—we might not today be witnessing so much social unrest and possibly not even hostilities. I suggest that it is the existence of widespread poverty and misery which has stimulated the spread of the virus now threatening the peace of the world.

It is no accident that, in establishing the structure of the United Nations, an Economic and Social Council, devoted to improving economic conditions throughout the world, was given its place alongside the Security Council. And it was the same recognition of the importance of economic development to peace and stability which influenced the founders of the International Bank to write into the Bank's Charter the long-range function of promoting development as coordinate with its shorter-range, if then more immediate, function of helping the war-ravaged nations to reconstruct their productive facilities.

I think the Bank has made substantial progress towards its objectives during the first four years of its operations. With your permission, I should like to review with you some of the factors which I think justify us in looking to the future of our institution with confidence.

Up to the present time, we have made loans which total nearly a billion dollars to 17 countries in widely separated parts of the world. We can already begin to see the fruits of these loans; to mention but a few examples, Bank financing is helping to produce steel in Western Europe, to increase timber yield in Eastern Europe, to enable the Indian Railways to break bottlenecks

which had interfered with the effective distribution of goods, to augment substantially the output of hydroelectric power in the Western Hemisphere, and to expand food production in a number of countries.

Increasingly, we have been able to supplement financial assistance with technical help and advice. If, through comprehensive survey missions such as those we have sent to Colombia, Turkey, Guatemala and Cuba, we can assist those of our member states desiring such assistance to use their own resources more effectively, we should be able to contribute more to their development than through financial aid alone.

We have firmly established our credit, so that we are now in a position to raise all the funds that we are likely to need for loans during the next few years at least. While the bulk of our borrowing has necessarily been in the United States market, it is heartening to me to see the markets of other countries opening to our obligations and to note that those obligations are receiving the high credit standing which I believe is justly theirs. To use but a single illustration, the Bank's bonds are the only dollar obligations which, up to now, have been permitted to be listed on the Paris Bourse. This action recently taken by the French authorities—and similar actions previously taken by a number of other countries—reflect, I believe, the unique nature of our securities, backed as they are not only by our portfolio of loans but by the guarantee of 49 sovereign nations.

It is also encouraging to note the increasing number of member countries which have authorized the Bank to begin lending their 18% capital subscriptions. While I realize that many member countries may be unable to give their unconditional consent at this time to large quantities of unrequited exports, I attach great importance to our increasing ability to draw on our 18% funds. This will widen the scope of our loan transactions—in intra-European lending, to use but one example—and will make the Bank a more truly international institution. This,

in my judgment, is essential if the Bank is to carry out fully its intended functions.

Because our credit has been firmly established, we have been able to set up a system of loan charges which compares very favorably with the current yield on most dollar bonds as well as with the domestic interest rates prevailing today in the majority of our member countries. It is, I think, worthy of note that, within the last few weeks, we have found it possible to reduce our commitment charge substantially and to apply that reduction not only to future loans but to the undischarged amounts of loans already made.

Finally, we have established lending standards which, I believe, mark a new step forward in the history of international investment. Our concern throughout has been that every loan we make should be of material benefit to the economy of the borrowing member. This has meant careful scrutiny of the particular project or program for which financing is requested and of the relation of that project or program to the economy of the country as a whole. We have been concerned to assure not only that the prospective gain to the borrower over-balances the burden of the debt obligation, but even more important, that the project financed has been accorded proper priority in the borrower's development plans. We have also been concerned to encourage an appropriate international division of labor by taking into account such factors as the proximity of proposed projects to the source of raw materials and to prospective markets, the availability of necessary skills and the many similar elements which influence production and distribution costs. Certainly, in the usual case, it only impedes development and wastes scarce capital resources to finance projects which cannot produce on competitive terms and which depend for their continuance upon artificial government supports.

In its lending operations the Bank is resting solidly on the two pillars upon which must be built a strong and lasting revival of international investment, especially of private investment. First, we have taken every opportunity to stress the need for re-estab-

lishing the integrity of international loan contracts. And, second, in our own loans we have taken all reasonable precautions to satisfy ourselves of the ability and willingness of the borrowers to repay them. The standards we have established have, I think, done much towards reviving and proving the idea that international investment can be carried on with adequate rewards both to the borrower and the lender.

The Bank, then, has established a firm foundation for its future work. Within the limits of sound investment practice, it is a flexible institution, ready to adapt itself to changing circumstances. The effectiveness of its contribution in the years ahead, however, depends not only on a continuation of its own efforts, but at least equally upon the efforts of the governments with which it deals.

Here, in Europe, much progress is being made in hammering out new patterns of production and trade to replace and improve prewar patterns that cannot be restored. Habits of economic cooperation have been formed which are already facilitating the necessary re-adjustments; I think we may confidently expect that these habits will be lasting and will result in even further progress in intra-European cooperation and in the integration of European industries. The Bank is ready to furnish whatever assistance may be within its capacity to help in this forward movement.

In some of the underdeveloped nations, I think we can also perceive an accelerating tempo of economic activity and an increasing willingness to grapple with the tough problems of development. In others, however, less progress is discernible.

I have noticed a tendency at times for development to be regarded as something which is due, as of right, from the more advanced nations to those less well developed. Whatever the rights and obligations of different nations may be, development is not something which can be imported from abroad. It is something which can only be won internally by acceptance of responsibility, hard work and sacrifice.

In the few minutes which remain, I would like to examine with you some of the steps which, as I see it, the underdeveloped nations must take if they are effectively to translate external financial assistance into the concrete substance of development. The steps are easy to state but hard to take; their implications are obviously far-reaching. But unless they are taken, the Bank's aid is likely to be of little value and the development problem may remain unsolved.

A first essential seems to me to be the formulation of a properly balanced development program, calling for investment expenditures which are within the capacity of the country concerned, including its capacity to borrow abroad, and for the allocation of those expenditures among different types of projects in accordance with an appropriate pattern of priorities. I do not minimize the courage, the far-sightedness or the restraint which this task requires. It involves, for example, rejecting political pressures for monumental showpieces, and the pressures of vested interests for enhancement of their position. It involves difficult judgments as between the claims of different regions of the country and as between those of different elements of the community within each region. But development is only hindered if more is undertaken than can be completed, or if the projects selected for immediate execution are not those which contribute most to the strength of the economy as a whole.

A corollary to the formulation of a proper investment program is the adoption and vigorous execution of appropriate fiscal policies. I am thinking not only of the need to avoid the distortions in an economy which are always the fruit of inflation. I am thinking as well of the adoption of tax systems and other policies which will make available a greater share of domestic wealth for development purposes. It is, I suggest, a dangerous fallacy to believe that the standard of living of the masses can be raised without some alteration of those economic structures which permit a relatively few people to enjoy most of a nation's income.

In some countries, too, a fairer allocation of the country's resources may be necessary to provide the ordinary people with both the means and the motive to increase their productive output. I think the history of almost all the more industrialized nations of the world demonstrates that development is rapidly advanced only when real incentives and opportunities exist for the individual to push forward as he himself sees fit: the farmer to improve his land and grow more crops, the small merchant to develop his business, and the artisan to start his own small factory.

Basic to all these steps is an improvement in health, in education and in public administration. This will not come quickly and it will not be achieved easily. But for that reason it is all the more essential that the task be undertaken with a sense of urgency commensurate with its importance.

In this whole process of development, the

Bank can, I think, play a significant role. We can provide financial support for some of the most useful projects which we hope will generate additional productive endeavor on a broad front. We can provide impartial advice on questions of priorities and on means for better mobilization of local resources. And with the cooperation of our members, we can aid, I believe, in creating confidence and the kind of economic environment which will encourage productive investment, both local and foreign, private and public.

The task before us seems to me, fundamentally, to be one of great hope and promise. In this time of trouble and disturbance in the world, let me remind you that the Bank was not founded to be a fair-weather institution. It has no intention of behaving like a fair-weather institution now. We will continue to press ahead with such skill and strength as we have at our command.