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Leonard B. Rist

August 10, 1953

SUGGESTIONS for Mr. BLACK's TALK at

LONG ISLAND SEMINAR

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1. The role of capital movements has been recognized for many decades/

They are helpful in restoring equilibrium
in fostering investment
and therefore in broadening the field of international trade far above the amount immediately financed by them.

During the XIXth Century and the beginning of the XXth Century most long-term capital movements were based on private credit, i.e. independent decisions of private investors. They did not take place because of international effects (improvement in balance of payments and investments) but because certain investors were attracted by opportunities: it is after the fact that their effects were observed.

Since the 30's private credit has been largely superseded by official operations. Even before 1939 the "cash and carry" provision of the American legislation prevented credits to the Western Allies; during the war Lend-Lease was a government operation and since the war large amounts were supplied through government channels or in the case of the IBRD, in part on the basis of government credits. In other words, the bulk of international capital movements instead of being induced was directed.

2. Induced and Directed Capital Movements:

a) It is not conceivable that the Governments should continue to carry most of the burden. All recent discussions about reviving private capital movements amount to a recognition of the desibability of a return, at least in part, to the pre-war pattern.

The motives of capital movements become therefore important. Main motive~~s~~ of private investment abroad is not desire to go abroad but attraction of a new opportunity: a more profitable venture appears attractive in spite of the fact that it is located abroad.

General illusion that private movements have stopped completely: the London market is estimated to have provided some $3 billion of private investment to the rest of the Commonwealth since 1946, partly in bonds, mostly in shares and direct investment. The American market has invested mostly in the form of direct investment probably more than $6 billion abroad.

Important to realize that large majority of American investment abroad comes from large corporations rather than from individuals. Individuals are more attracted by smaller earnings but assured liquidity.

Several signs indicate that the return to a certain equilibrium in world payments, for instance the disappearance of the dollar gap, is attracting the interest of a new class of investors, the same persons who are now investing in mutual trusts here. If transfer problems and, therefore, liquidity cease to be a major consideration, there is good chance that some investments will take place in form of minority shareholdings when return is high.

b) The new feeling of world solidarity and in particular of international responsibility, current in the United States has motivated large government transfers: UNRRA, Interim Aid, Marshall Plan, MSA - and also support of the colonies by England and France or Colombo Plan gifts - ort technical assistance grants. Now that post-war emergency is past, these official movements find their main justification in the need to establish a basis on which private savings (local) and private investment (foreign) can develop.

c) IBRD is somewhere between purely private and official operations. It attracts savings in cfeditor countries on basis of creditor government guarantee, and directs their use to countries considered too risky by private investors but considered "reasonable risk" by International Bank. The IBRD's view of risks is predicated on a certain number of assumptions, including the idea that international capital movements will continue and that prospects for world equilibrium are hopeful.

3. <u>Conditions for continuance of international movements of capital</u>:

The main condition is that some kind of equilibrium be established in world payments. Since main supplier of capital is the UNited States, the future policy of the U.S. with regard to international payments is overriding consideration. This is the reason why the Bank has a direct interest in the improvement of trade policies of the US., Quite aside from the need to find stable markets for American staple products, it is essential that foreign countries should be able to earn dollars from trade rather than through aid. Aid is dependent on annual decisions, trade establishes itself and develops as soon as opportunities are available.

Clearly, U.S. policy is not enough. The much abused word "climate" has a lot of substance. The recipient countries desirous to attract foreign investment have numerous duties also. They must convince investors (including the Bank) that their policies do not run counter to a return to equilibrium in their external payments. They must provide hope to foreign investors that they will be immune from arbitrary restraints or expropriations. They must encourage their own nationals to save and invest since foreign investment will never be more than a marginal fraction of the needs.

4. We are close to the time where capital movements will no more be mainly devoted to meeting emergencies and where, therefore, induced private transfers and directed semi-official transfers (IBRD) will regain their primary position. They ought to perform two functions if payment equilibrium in the world is not too shaky: (1) smooth over the temporary difficulties which may arise in any case, and (2) effectively contribute to developing the economies of the debtor nations by transfer of resources from the richer to the less fotunate countries. The circle would, thus, be a closed one: capital movements help equilibrium, equilibrium fosters capital movements.

July 13, 1953

MEMORANDUM

World Development Corporation.-

The suggestion of Mr. Javits is attractive in many respects. It springs from a conviction that the role of the advanced countries is to improve the conditions of living in both developed and underdeveloped areas. It assumes implicitly that exports of capital are one way of substituting for the lack of local savings, and it suggests that, under international sponsorhhip, direct as well as portfolio investments should be undertaken on a very broad scale. One cannot help agreeing with this basic approach.

The difficulty arises when one tries to translate these broad aims into practical operations. In the first place, no distinction is drawn in the plan between the use of local savings and the use of imports of capital for investment purposes. If the basic idea of the plan is that through a new instrumentality savings could be mobilized for local investments which have remained untapped until now, one may express some doubt as to the efficacy of the system proposed. All sorts of means have been used to lure savings into savings banks, bonds or corporate shares and, to the extent they are insufficient, one must admit that the obstacles are probably other than the lack of public interest in further investment. Clearly the savers are interested in getting a return on their own savings; the margin they can save depends on their own income and on the security, liquidity and return they can expect from the securities they purchase. The currency situation and political difficulties which prevent the accumulation of large savings in a number of countries would not be erased by the creation of a new institution based on what could be called "collective enthusiasm".

If, on the other hand, the main idea is to provide for a fund which could be used for exports of capital, then the obstacles which stand in the way of exports of capital from most European countries would persist, and in the end the main contributors would be the United States, Canada and perhaps Switzerland.

In any case, whether the main idea is an accumulation of new capital, or movements of capital across frontiers, the average participation expected from all the potential savers in the free countries is quite high. The inhabitants of the free world are roughly a billion and a half - of whom probably no more than six or seven hundred million are family heads or independent. The average contribution to be expected from them would, therefore, far exceed 25 dollars per head. This appears to be an unattainable target.

Thus the difficulties involved in capital transfers as well as those involved in finding the sources from which such vast amounts could be tapped, bring us back to the original problem which confronted the United States government both when it helped in establishing the International Bank and when it adopted the Marshall Plan, namely that either the funds or the credit of the

United States government, as the principal capital exporting country, have to be relied on.

Mr. Javits'proposal, however, is closely akin to the suggestion made over the last two or three years concerning an international grant fund or an international equity finance corporation. In both cases the needs for such type of financing have never been denied, but the problem was mainly how big the funds ought to be in view both of the capacity of absorption of additional funds by the developing countries and of the limitations of the prospective sources of funds. It is interesting to note in this connection that, as far as the equity financing corporation was concerned, some suggestions were made to the effect that private enterprises should create a fund for the same purpose without government intervention. As far as we are aware, the chances of realization of this particular idea seem very remote.

Mr. Javits does not elaborate on the type of operations that he has in mind. The financial risks involved in international equity financing are well illustrated by the experience of some of the corporations he names as models (Liberia, IBEC). It would be unfortunate to call upon private individuals to put their small savings into an operation which is intended to be businesslike and profitable, and in fact runs into losses which would turn the share subscriptions into welfare contributions. The recent history of the Colonial Development Corporation in Great Britain, which was financed by government funds and was intended to be run on a business basis, is only one more instance of the dangers involved.

Finally, the administrative set-up envisaged by Mr. Javits tends to give a preponderance of votes to the United States by allowing each state of the Union to be represented on the Board. The simple method adopted in the Bretton Woods institutions seems preferable. The weighted vote given to the U.S. representative adequately allows the latter to exercize an influence commensurate to the American contribution.

In conclusion it may be said that, however attractive and generous Mr. Javits' plan may be, its implementation would run into great practical difficulties without assurance that the purposes should be fulfilled.

Mr. Eugene R. Black July 13, 1953

Leonard B. Rist

Italy.-

The attached memorandum on Italy makes the following points:

1. Italy's recovery since the war has been considerable; the country seems to have surpassed prewar per capita income levels.

2. American aid was a substantial factor in this recovery.

3. In order to allow economic growth to continue, foreign investment, or economic aid, or both, are necessary. But the need for emigration remains pressing.

4. Without a continued economic improvement, the country runs the danger of losing its confidence in the Center parties and being divided between extreme left and extreme right, thus making Italy a prey to Soviet influence.

The author is obviously concerned by the results of the last Italian elections which he feels would be interpreted as meaning that American aid has had no influence on the welfare of the Italian people. The author, however, does not explain why the elections had this result despite the improvement in the economic position. I personally suspect that psychological and ideological factors have palayed a much larger role than the economic ones, and that national pride, anticlericalism, and the Latin tradition of expressing discontent by voting to the extreme left, influenced the votes last June. In other words, the improvement which took place in the lot of the average citizen allowed him to return to his traditional political preoccupations.

It is of course true that a slowing down in the economic progress of Italy would mean increased unemployment, increased poverty, increased discontent. It is also true that anything that can be done to help Italian emigration is a factor of stability. Except the Argentine which proclaims the wish to receive more immigrants, we know that, unfortunately, the U.S. is not anxious to increase national quotas, that the Latin American countries do not feel inclined or able to accommodate large numbers, that Canada is limited and that Australia would like to limit Italian immigration to its Northern tropical area. Several times in the past, Italian friends have suggested that the Bank should link its lending to underdeveloped countries to the settlement of immigrants. Never has any practical plan been proposed by any country receiving immigrants.

As far as foreign investment is concerned, it would be a reasonable solution if it could be achieved aside from dollar investments. European investments are not impossible but they would be rather scant. The sums that the Swiss or the Belgians could invest in Italy are not great, and Britain and France, or Germany, are not anxious to export capital. One could conceive that in due course Italy could run a deficit in EPU and that after a period of years this deficit - which in fact amounts to short-term credit from the other members - would be funded in the form of long-term investment.

As to American investors, they may well show some interest in investment in Italy if European currencies can finally be made convertible. This would assume that the pound sterling is more easily transferable than now, and that the stern monetary policies which are now being enforced by Italy be continued. Until these conditions are realized, American capital is likely to invest itself in Italy only under special guarantees or special contracts, such as the oil companies have obtained.

Obviously, another solution would be larger credits by the International Bank. If we had enough European currencies available (Swiss francs for instance), the risk would not be too great, but if we have to lend dollars, we cannot, as long as the convertibility of the main European currencies has not been restored, take it for granted that Italy will in due course earn its way in dollars. Italy has a deficit with the dollar area and must earn additional dollars from its trade with Europe or with the sterling area. We are, therefore, justified in limiting our financial assistance to Italy to something below the annual pepgyment of principal which Italy must make every year ih dollars on its existing debt, which is our present policy. The author, moreover, does not suggest in what fields investment in Italy would be the most useful or profitable.

The author seems to be unduly concerned by the reversal of the Italian position in EPU. After having been a creditor for a long period, it has now lost this credit and is running slowly into debt to the Union. But this has coincided with the application of severe import restrictions by both Britain and France which are not likely to remain permanent.

A final incidental note. The author takes some pains to demonstrate that the increase in the national income of Italy has been considerable since the war. We had generally assumed that this increase has just about kept pace with the increase in population. The author is clearly concerned by the advice often given to Italy from abroad to relax its monetary controls in order to foster its business and investment activities. While perhaps correct in other circumstances, this particular piece of advice has been fortunately rejected by the Italian government. To my mind, monetary stability is indispensable in a country which has suffered heavily from the rapid depreciation of its currency. In view of the psychological reactions of the Italian people, it is probable that a reversal of the monetary austerity would bring about not more investment but all the chaotic waste of resources which currency depreciation brings in its wake. This is clearly a question of degree and during the past year the Italian government has if anything accelerated the rate of investment at the expense of some loss in reserves.

June 24, 1953

Mr. Walter P. Reuther
President
U A W - C I O
Solidarity House
8000 East Jefferson Avenue
Detroit 14, Michigan

Dear Mr. Reuther,

I am obliged to you for sending me the Resolutions adopted by the 14th Constitutional Convention of the U A W - C I O. I have read them with interest.

In the field which is more particularly my own, namely international relations, I was pleased to find that the important body of opinion which you represent has taken a constructive position on the matter of "Trade, not Aid". The views expressed in the third full paragraph on page 5 of your Resolution on International Relations correspond substantially to those which I have had the occasion to express on the same matters.

Yours sincerely,

(Signed) Eugene R. Black

Eugene R. Black

LBRist/mlc

Mr. Eugene R. Black June 15, 1953

Leonard B. Rist

Speaking Tour on the Western Coast.-

1. The speaking program included 9 meetings as follows:

	Place	Organization	Subject	Attendance
May 18	Los Angeles	Cttee on Foreign Relations	Interplay of politics & economics	18
May 19	Los Angeles	Town Hall	Foreign Trade & foreign Investments	170
May 20	Los Angeles	Bankers group	IBRD	36
May 22	San Francisco	Bankers group	IBRD	20
May 28	Portland	Businessmen group	Foreign Trade & Foreign Investments	20
May 28	Portland	Cttee on Foreign Relations	Interplay of politics & economics	25
May 29	Portland	Bankers group	IBRD	8
June 2nd	Seattle	Cttee on Foreign Relations	Foreign Trade and Foreign Investments	28
June 2nd	Seattle	Bankers group	IBRD	30
			about	355

I also made it a point to call on as many local banks as time permitted. In particular, I could pay personal calls on:

- Mr. Shelton (Security First National Bank, Los Angeles)
- Mr. Russ Kent (Bank of America, San Frannisco)
- Mr. D. Chapmann (American Trust Co., San Francisco)
- Mr. Prosser (First National Bank, Seattle)

whom you had recommended I should see.

2. The meetings at Town Hall and the Committee on Foreign Relations were very well prepared and arranged through our office of Public Relations. The meetings with bankers and businessmen were the responsibility of Dennis McCarthy, who represents the First Boston Corporation in San Francisco, and did an outstanding job at stirring up interest and bringing people together;

were also most helpful in setting up the bankers' luncheons:

- Mr. Francis Moulton of R.H. Moulton & Co., Los Angeles
- Mr. Russell Colwell, Vice Pt. First National Bank, Portland
- Mr. Lyle F. Wilson, Executive Vice Pt. Pacific Northwest Cy. Seattle.

3. Questions asked revolved mainly around the IBRD when the speech was of a general nature and about general problems when I lead off on the Bank. The mechanism of the U.S. guarantee and the prospects for an expansion of our lending operations were two ever-recurring questions. Special questions were raised with the present position of India-Pakistan, the Philippines and Latin America, as well as Europe, in particular U.K. and the Netherlands. Japan, strangely enough, was not mentioned once. Several bankers asked whether Mr. Frere, who obviously has made a great impression in the West, was not over complacent about his own country and his own policies. Everybody of course wanted to know about our loan record and our reserves.

Among the questions relating to general issues, the most frequent were what would happen if the U.S. should go back to strong protectionism ? and why are there still so many exchange restrictions in the world ?

4. My general impression was that the Bank was known but not well known, looked upon with sympathy as a useful and politically impartial institution. The investment bankers highly appreciate the businesslike attitude of the management and are quite convinced that our loans, be they to Bolivia or Yugoslavia, are reasonable and constructive propositions. But they do not know about the obstacles we have to conquer and why our operations are not developing as quickly as some of them would have expected. In other words, the details of our policy problems are of greater interest to them than the general purposes and organization of the Bank.

5. The downward trend of the bond market and their own local problems (such as the drive now under way to reduce or limit installment credit) were the major topics of conversation among the bankers and it is not without relief that they heard that we had no bond issue planned for the immediate future since tax free bonds are the only ones for which they find an active outlet right now. I could not help noticing, however, a restrained expression of envy whenever I indicated the amount of bonds floated abroad and that a new issue in Switzerland was in in the offing.

6. Attached please find for your information the list of bankers and business people who attended the luncheons. The list for Seattle has not yet been sent to me by the organizer, Mr. Wilson.

Cc. Messrs. R.L. Garner
H. Graves
G. Martin

Mr. E. R. Black May 27, 1953.

Leonard B. Rist

Talks to Los Angeles and San Francisco Bankers.

This is just to tell you what an excellent job Dennis McCarthy of First Boston Corporation did in getting first rate people together at luncheon in both these cities. I understand you have the lists of names.

Of course a great many of them knew you or knew of you and send regards. One or two asked me whether it was true that you were going to Germany. Impossible to know whether they liked the idea or not. I think they just found it intriguing. The Security - First National Bank in Los Angeles was particularly interested in the possibility of financing through IBRD some German purchases of airplanes from Douglas Aircraft. They understood the story about government guarantees and priorities quite well I think, but it is not impossible that they may suggest to Douglas Aircraft to try and make airlines a first priority project for Germany.

The talks to the bankers were quite successful. Francis Moulton in Los Angeles and Russ Kent in San Francisco seemed just as pleased as McCarthy. The questioning was quite active - always the same: Any losses? What issues outside the U. S. did we make? Do U.N. technical assistance or Point IV interfere with our action? To which countries do we expect to make our next loans? What about Japan? Can she put her balance of payments on an even keel? Did our rate of interest on loans follow the general trend, etc?

Interestingly enough, after I spoke to the bankers about the Bank they also asked me many questions about the world situation. At the Foreign Relations Council and Town Hall where I had talked general problems, most of the questions were about the Bank's operations.

McCarthy has organized another financial luncheon for me in Portland and still another one in Seattle. If they run as smoothly and nicely as the two previous ones, I shall be very happy. Meanwhile the First Boston Corporation and Dennis McCarthy deserve a great thank you.

cc: Mr. Graves

LBRist/med.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FOR THE PRESS

Address by Eugene R. Black, President of the
International Bank for Reconstruction and Development
Before the 15th Session of the Economic and Social Council of the
United Nations, meeting at U.N. Headquarters, New York City

NOT TO BE RELEASED UNTIL TIME OF DELIVERY, SCHEDULED
FOR 10:30 A.M., TUESDAY, APRIL 14, 1953

This is the fourth session in which I have had the privilege of meeting with the Economic and Social Council of the United Nations. During these years, you have seen the work of the Bank grow in variety and volume. Since I last met with you, ten months ago, we have added new members, new borrowers and new projects to our history.

The total of all our loans now stands at $1,600 million. The Seventh Annual Report which you have before you records 19 loans, totaling some $300 million, made during the fiscal year 1952. In the following nine months, nine more loans, totaling $175 million, have been made.

In the main, we have continued to work along lines with which you are familiar. Our chief objective has been to lay economic foundations in our less developed member countries which can become the basis for increased production, higher standards of living and better ways of life. A brief description of a few of our new undertakings will illustrate, I think, the kind of practical results we hope and expect our loans will help to achieve.

Our most recent loan to Turkey was made to help develop the Adana Plain, a delta in southern Turkey jutting into the Mediterranean. This is already a productive area, but it could support substantially greater production, both agricultural and industrial, were it not for serious electric power shortages, inadequate water for cultivation of crops and ruinous seasonal floods. The key to overcoming these obstacles is a multipurpose dam and hydroelectric plant on the Seyhan river which would provide power, irrigation and flood control. Toward the foreign exchange costs of this project, including the erection of transmission lines to three industrial centers, the Bank's loan is providing $25.2 million.

The benefits of a comprehensive scheme of this type can never be measured precisely, but you will be interested in some of the estimates we obtained in this instance. Prevention of flood damage alone should result in average savings of about $3 million annually. Regular irrigation, by increasing production of the principal crops -- cotton, oil seeds, citrus fruits -- is expected to bring farmers in the region additional earnings of about $16 million a year. The power plant we are financing will bring an eightfold increase in production of electricity in the area by 1956, and should make possible the growth of such industries as food processing, textiles, and agricultural implement plants. The Seyhan project will give an impetus to the Turkish economy generally.

In the Western Hemisphere we made a loan some months ago of $25 million to Colombia, to help finance two essential parts of a program for improving railways. Our loan will assist in building a badly-needed rail link along the Magdalena river, and in the construction of central railroad repair shops at Bogota. Completion of the new line will provide a through rail connection from the Pacific Coast to the capital and other important interior cities. It will also provide reliable communication between the interior and the Caribbean Coast by eliminating dependence on river transport on a part of the Magdalena river where navigation is subject to interruption during dry seasons. For the first time in its history, Colombia will have a unified railway network. In addition, a thorough reorganization of the National Railroads is being carried out to improve their administration and operations. Need for railway improvement was stressed by the general survey mission we sent there in 1949, and by Colombia's own Economic Development Committee which worked out a development program based on our mission's report.

In India we made in recent months two loans for projects in the Damodar River Valley. One of these loans is the first we have made directly to a private manufacturing concern -- a loan of $31.5 million to the Indian Iron and Steel Company. Iron and steel are in heavy demand throughout India -- for uses ranging from large transport projects to supplying plows and other tools to individual farmers. The Bank's financing will help the Company double its present capacity for producing iron and steel products.

Another loan, of $19.5 million to the Indian Government, is being used to carry forward a scheme for the development of the Damodar Valley as a whole. It is helping to finance the construction of a group of dams in the Valley, to be used for flood control, hydroelectric power and irrigation, and will also help to build a large irrigation and navigation canal and an extensive system of smaller irrigation canals. These projects will have important and varied results. They will, for one thing, prevent serious flood damage to crops and property. With adequate irrigation of the lower part of the Valley, it is estimated that some 400,000 additional tons of grain can be produced annually in this area. The large canal, which will connect the Damodar River with the Hooghly will take part of the load of minerals and other bulk products off the overburdened railways. And the new hydroelectric power stations, along with the Bokaro thermal plant which we also helped to finance, will feed many industries concentrated in the Damodar Valley -- steel, aluminum, fertilizer, locomotive works, among others.

On the disbursement side of our ledgers, the figures are mounting. Early in this calendar year, disbursements on our loans passed the billion dollar mark. They now stand at $1,050 million. In the twelve months just ended, we disbursed $227 million -- more than in any comparable period since the time of our reconstruction loans more than five years ago. We know, from the returns so far received from our borrowers, that of $120 million disbursed in the first six months of the current fiscal year, about $45 million, or 38%, was spent outside the United

States. This maintains the increased rate reached in the previous fiscal year.

We are encouraged that the proportion of our lending in non-dollar currencies has also been sustained at a significant level. Of the $175 million of new loan commitments in the last nine months, we expect $34.5 million to be discharged in European currencies. The bulk of these commitments is contained in a loan equivalent to $30 million to Yugoslavia which we expect to disburse in 11 different European currencies. The remainder consists of $3.4 million entirely in Swedish kronor to Finland and $854,000 in various European currencies to Iceland.

Part of the Bank's demand for non-dollar funds have been met by purchases of other currencies with dollars. But this lays a dollar obligation on our borrowers, just as much as the direct lending of dollars. In the present state of world trade and hard-currency shortages, we continue to be anxious to lend in other currencies. We are therefore still pressing our members for further releases from the 18% of their capital share in the Bank which they have subscribed in their own currencies. A measure of the success of this effort can be seen in the fact that non-dollar funds available from 18% capital have increased during the past 12 months by the equivalent of $63 million, and that the total of such funds is now the equivalent of $119 million. In addition, the United Kingdom has agreed to make £60 million, equivalent to $168 million, available from its 18%. This sum can be used by the Bank over a six-year period for projects in the Commonwealth countries of the sterling area.

The Bank has continued to raise funds in private capital markets. The Seventh Annual Report shows sales of more than $185 million of its bonds to investors -- the highest figure since 1947. Since last June, the Bank has floated two more bond issues: $60 million in the United States market last October, and 50 million Swiss francs in November.

Both offerings were successful. They reflected in their pricing and coupon rates, however, the rising cost of money to all issuers. Illustrative of the effect of this rise in the cost of funds is the fact that the latest long-term loans made by the Bank have carried a rate of 4 7/8%, including the 1% commission required by the Bank's Articles of Agreement.

In February the Bank retired $10 million of its 2% bonds which matured in that month. Early in March it also retired maturing bonds to the value of 5 million Swiss francs from the 2½% Swiss franc Serial issue of 1950. This leaves the net total of direct obligations now outstanding at $556 million, all but $56 million of it in U. S. dollars.

As you know, the Bank also sells to investors, both in the United States and in other countries, securities it obtains from its borrowers in connection with loans. So far in the current fiscal year, more than $11 million of such obligations have been sold, half of them with and half without the Bank's guarantee.

Although there has been no basic change in the pattern of Bank activity since I last met with you, certain aspects of our work have become more prominent. Heretofore the Bank has been chiefly occupied with problems arising from the preparation and appraisal of projects for financing. As more and more loans have gone into operation, however, difficulties involved in carrying projects forward have claimed a greater share of the Bank's attention. Often these involve technical and engineering matters. Almost as often, however, they are questions of administrative and financial management. Material and supply problems have also interfered with completion of projects on schedule, although to a lesser extent than was at one time feared. By maintaining close and continuous contact with its borrowers, through periodical progress reports, through visits by both staff members and consultants specially engaged to advise on particular problems, the Bank tries to anticipate such problems to the extent possible. Nonetheless, there are bound to be difficulties and the Bank's concern is, of course, to assist the borrower in working out prompt and efficient solutions.

Another problem which we are encountering is an increase in the number of situations where, although a project is undoubtedly desirable and practicable, factors intervene to prevent effective Bank action. It is difficult to generalize since the circumstances seem to be special to each case. But the Bank has been impeded, for example, by inflationary monetary and fiscal policies, by the failure of the borrower to perform satisfactorily on other loan projects, and by disturbed political conditions. There is nothing new about these problems, and I have mentioned them to you before. But, most assuredly, they still exist.

On the other hand, the Bank has been unusually active in investigations looking toward new lending or the reduction of present difficulties. In the past nine months alone more than 40 member countries and dependencies have been visited by Bank missions of one sort or another. I myself have just returned from a trip to the Middle East in which I was able to visit seven member countries.

These missions have varied widely in composition and function. As part of routine procedure, for example, the Bank has periodically sent out small staff missions to check on the progress of Bank-financed projects. In other cases, a mission may include, along with Bank staff members, experts recruited from other international or national organizations, both public and private. It may remain in a country for as long as several months making various types of economic studies or examining development plans and projects. Our recent loans to Northern Rhodesia, India and Yugoslavia were the direct results of studies and recommendations of missions of this type sent to those countries last summer. The groundwork for loans to more than a dozen other countries has now been prepared by similar groups.

In a special category are visits to new members. Their purpose is to acquaint the Bank with the general financial and economic situation in the country as a foundation for our possible future participation in its development. In the past year, as you know, the Bank gained three new members: Germany, Japan and Burma. Each of these countries has now been visited by a mission of this character.

In the field of technical investigation and advice the general survey mission continues to be the principal way in which the Bank has provided aid to its members.

During 1952 survey reports were transmitted to the governments of Iraq, Surinam, Ceylon, Nicaragua and Jamaica. In addition, the report of a joint Bank/FAO mission to make recommendations for agricultural development was presented to the Chilean government.

In all, including the group just returned from British Guiana, the Bank has sent out ten survey missions. On the whole, the response to their work has been encouraging. Even in the cases of those reports transmitted last year, there has already been action taken on the basis of various mission recommendations. In Ceylon, for example, the government is now studying the report on that country with a view to using it as the basis of a new five-year investment program. In the meantime, Ceylon is taking steps to carry out the major administrative recommendations of the mission.

In Iraq the mission's report has served as the basis for a five-year investment program which puts major emphasis on the development of water resources and the improvement of agriculture. In Surinam the government has submitted to the legislature a five-year development program based on the mission's report.

In Nicaragua, instead of the usual survey group, the Bank stationed a special representative and engineer for approximately a year. They were assisted from time to time by consultants from the Food and Agriculture Organization, the Federal Reserve Bank of New York, the Corporacion de Fomento de la Produccion of Chile and a transportation expert from the Bank's own staff. By September, when the final report of the Bank's special representative was formally transmitted, the government had already put into effect a number of his recommendations. To assist the government in carrying out these measures, which included the carrying out of fiscal reforms and the establishment of a National Development Institute, the Bank has agreed to continue assignment of a special representative and an assistant for an extended period.

Other types of advice provided during the year have varied according to the particular problem on which the Bank's help was sought. Some aid has been furnished in cooperation with other international organizations. For example, in the summer of 1952, a joint mission of the Bank and the UN Technical Assistance Administration visited Panama to discuss steps to be taken toward the economic development of Panama as suggested in the report of an earlier Bank mission. Since then the Technical Assistance Administration has undertaken to provide experts in fiscal and public administration; and the Bank provided an expert to advise on problems of fiscal policy and helped to arrange for the services of consultants on problems of agricultural credit.

The Bank has also been active in efforts to stimulate the mobilzation of local capital through the organization of development banks and the marketing of domestic securities. The Bank's Director of Marketing spent two weeks in the Philippine Islands in December advising on the development of a government bond market; earlier the Bank and the Colombian government jointly sponsored a visit by an investment expert to advise on methods to increase the flow of capital into productive private exterprise and means to develop markets for public securities in Colombia. At the request of the Cuban government the Bank has undertaken to provide assistance in the development of a local capital market.

Bank officers have also been assisting with the establishment of a Development Institute in Nicaragua and a development bank in Iceland; and in January a Bank representative visited Lebanon to explore the feasibility of establishing a development bank in that country.

You will have noticed, in the reports before you, a special project of particular interest to two of the Bank's member countries. That is the study of possible ways of making greater use of the Indus system of rivers for purposes of economic development. During May and June 1952 engineers from India and Pakistan met at the Bank's headquarters, together with Bank engineers, to study possible technical means to increase the supply of water available from the system. After a recess to permit the gathering of technical data, the meetings resumed in Karachi and Delhi late in 1952. At the conclusion of these meetings it was decided that the engineers should meet again next September in Washington to prepare a comprehensive plan for the development of the Indus Basin, including preliminary cost estimates and a construction schedule for the new engineering works involved.

As you will remember, in June last year you considered a report which I sent to you concerning the proposed International Finance Corporation. The proposal was extensively discussed at our Seventh Annual Meeting in Mexico City last September. The Bank also took note of the discussions on this subject during the meetings of the General Assembly's second committee last fall, and has since that time continued to gather reactions in interested quarters. It is hoped that a report of the results of our consultations will be ready for presentation at your Geneva meeting this summer.

Finally, I would like to say a brief word about the year that is now under way. For in some respects the world economic situation has changed very radically, almost reversed itself, since I met with you in Chile just over two years ago. The postwar backlog of demand for goods and services in the industrialized countries has been in large part satisfied. And the critical shortages which plagued efforts to rebuild and expand industrial capacity have generally been overcome. Although inflationary pressures persist, inflation has to some extent subsided and a period of adjustment appears to be setting in.

Some of the implications are just beginning to be visible. A slowing down of the rate of productive growth and investment in industrial countries may have adverse effects on the export earnings of some underdeveloped countries. On the other hand, competition among industrial countries to supply needed goods and equipment will probably grow keener. And this may have the effect of encouraging the flow of direct private investment and private credits. Clearly, however, whatever the turn of events may be, there will be no slackening in either the demand for, or the urgency of, economic development. Nor will there be lessening in the effort that all of us will be called upon to make. We in the Bank look forward to an active year, the end of which will, we hope, show us a little closer to the goal for which we are striving.

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FORM No. 57
(5-48)

1223

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

hold for Mr. Reid

TO: Mr. J. H. Adler

DATE: April 7, 1953

FROM: Harold Graves

SUBJECT: Draft of Mr. Black's speech to ECOSOC

Here is a draft of the speech Mr. Black is to make to ECOSOC next Tuesday, April 14. I would appreciate having any comments you or your staff may have not later than the close of business, April 9. Please give these to Mr. Edward Symonds, Room 1124, Ext. 2268; it would be particularly helpful if these copies could be returned to him with suggestions about specific language needed by way of revision.

April 6, 1953

DRAFT OF MR. BLACK'S ECOSOC SPEECH

For this review of its work, the Bank has a period of normal business to report. There have been no spectacular changes, no basically new developments in the Bank's activities since I last discussed them with you. Rather as the Seventh Annual Report and the Supplement to it indicate, the past 20 months have been devoted to a continuation of work along established lines.

The main business of the Bank has, of course, continued to be lending for development. The total of all our loans now stands at $1.6 billion. The Seventh Annual Report records 19 loans totalling $298.6 million, made during fiscal 1953. In the nine months following nine more loans, totalling $175 million were made.

I shall not here attempt to describe each of the projects which these loans are helping to finance. But a brief description of a few of them will illustrate, I think, the kind of practical results we hope and expect our loans will help to achieve.

Our most recent loan to Turkey was made to help develop the Adana Plain, a delta in southern Turkey jutting into the Mediterranean. This is already a productive area, but it could support substantially greater production, both agricultural and industrial, were it not for serious electric power shortages, inadequate water for cultivation of crops and ruinous seasonal floods. The key to overcoming these obstacles is a multipurpose dam and hydroelectric plant on the Seyhan river which would provide, along with power, irrigation and flood control. Toward the foreign exchange costs of this project, including the erection of transmission lines to three industrial centers, the Bank's loan is providing U. S. $25.2 million.

The benefits of a comprehensive scheme of this type can never be measured precisely, but you will be interested in some of the estimates we obtained in this instance. Prevention of flood damage alone should result in average savings equal to about $3 million annually. Regular irrigation, by increasing production of the principal crops -- cotton, oil seeds, citrous fruits -- is expected to bring farmers in the region additional profits worth about $16 million a year. The power plant we are financing will quadruple production of electricity in the area by 1965, and should make possible the growth of such industries as food processing, textile, and agricultural implement plants. The Seyhan project will give an impetus to the Turkish economy generally.

is it profits? or income

In the Western Hemisphere we made a loan some months ago of $25 million to Colombia, to help finance two essential parts of a program for improving the railways. Because of Colombia's mountain-marked terrain, rail transport is vitally important, but up to now it has been far from adequate. Our loan will provide equipment for building a badly-needed rail link in the Magdalena Valley, and railroad repair shops at Bogota. The country's eastern and western rail lines will be connected, affording a reliable transport route from the Pacific to the Caribbean; and centralized repair shops will greatly improve the use of rolling stock. In addition, the management of the unified National Railways is being overhauled. This loan was one result of continuing collaboration between the Bank and Colombia. Need for railway improvement was stressed by the general survey mission we sent there in 1949, and subsequently by Colombia's Economic Development Committee and by the National Planning Board which the Government established about a year ago.

In India we made in recent months two loans for projects in the Damodar River Valley. One of these loans is the first we have made directly to a private manufacturing concern -- a loan of $31.5 million to the Indian Iron and Steel Company. Iron and steel are in heavy demand throughout India -- for uses ranging from large transport projects to supplying plows and other tools to individual farmers. The Bank's financing will help the Company double

how private?

its present capacity for producing iron and steel products.

Another loan, of $19.5 million to the Indian Government, is being used to carry forward a scheme for the development of the Damodar Valley as a whole. It is helping to finance the construction of a group of dams in the Valley, to be used for flood control, hydroelectric power or irrigation, and will also help build an extensive system of irrigation canals. These projects will have important and varied results. They will, for one thing, prevent serious flood damage to crops and property. With adequate irrigation of the lower part of the Valley, it is estimated that some 400,000 additional tons of grain can be produced annually in this area. And the new hydroelectric power stations, along with the Bokaro thermal plant which we also helped to finance, will feed many industries concentrated in the Damodar Valley -- steel, aluminum, fertilizer, locomotive works, among others.

or? don't we know?

On the disbursement side of our ledgers, the figures are mounting. During the period, disbursements on our loans moved well beyond the billion dollar mark. They now stand at $1,050 million, a gain of $227 million for the year ended March 31. Complete returns are not yet in as to where the borrowers spent the funds we disbursed over the last 12 months. We know, however, that of $120 million disbursed in the first six months of the current fiscal year, about $45 million, or 38%, was spent outside the United States. This maintains the average reached in the previous fiscal year.

We are encouraged that the proportion of our lending in non-dollar currencies has also been sustained at a significant level. For the first nine months of the current fiscal period, we undertook $175 million of loan commitments, of which we expect $34.5 million to be discharged in European currencies. The bulk of these commitments is contained in a loan equivalent to $30 million to Yugoslavia which we expect to disburse in 11 different the Bank wants to do that

European currencies. The remainder consists of $3.4 million entirely in Swedish krona to Finland and $854 thousand in various European currencies to Iceland.

There is nothing wrong with that!

To meet demands for non-dollar funds the Bank has had to resort, in part, to purchases of other currencies with dollars. Consequently, we are continuing to press our members for further releases of their 18% contributions. A measure of the success of this effort can be gained from the fact that non-dollar currencies available from 18% capital increased by the equivalent of $63 million to a total of $119 million in the year ended March 31.

The United Kingdom has also agreed to make £60 million, the equivalent of $168 million, available to us from its 18% contribution. These funds can be used by the Bank over a six-year period in connection with loans in the Commonwealth countries.

In the fiscal year ended June 30, 1952, the Bank sold more than $175 million of its bonds to investors. This was the highest figure since 1947. Since then the Bank has floated two more bond issues. In October the Bank sold $60 million of nineteen-year 3½% bonds, through a banking group headed by First Boston Corporation and Morgan Stanley & Co. The price to the public was 98% to yield 3.65%. In November an issue of Sw.Fr.50 million of ten-year 3½% bonds was sold on the Swiss market at 98½% to yield 3.68%. This was the Bank's second bond issue in Switzerland.

Both offerings were successful. They reflected in their pricing and coupon rates, however, the rising cost of money to all issuers. Illustrative of the effect of this rise in the cost of funds is the fact that the latest long-term loans made by the Bank have carried a rate of 4 7/8%, including the 1% commission required by the Bank's Articles of Agreement.

In February the Bank retired $10 million of its 2% bonds which matured in that month. This leaves the total net of direct obligations now outstanding at .. $557 million, all but $57 million of it in U. S. dollars.

The Bank replenishes its funds by selling to investors, both in the United States and other countries, securities it obtains from its borrowers in connection with loans. So far in the current fiscal year, more than $11 million of such obligations have been sold, half of them with and half without the Bank's guarantee.

Although there was no basic change in the pattern of Bank activity during the period, certain aspects of our work became more prominent. Heretofore the Bank has been chiefly occupied with problems arising from the preparation and appraisal of projects for financing. As more and more loans have gone into operation, however, difficulties involved in carrying projects forward have claimed a greater share of the Bank's attention. Often these involve technical and engineering matters. Almost as often, however, they are questions of administrative and financial management. Material and supply problems have also interfered, although to a lesser extent than was at one time feared, with completion of projects on schedule. By maintaining close and continuous contact with its borrowers, through periodical progress reports, through visits by both staff members and consultants specially engaged to advise on particular problems, the Bank tries to anticipate such problems to the extent possible. Nonetheless, there are bound to be difficulties and the Bank's concern is, of course, to assist the borrower in working out prompt and efficient solutions.

Another type of problem which we have encountered to a far greater extent than before are unusual difficulties in making new loans to some of our member countries for projects that undoubtedly are desirable and practical. It is difficult to generalize since circumstances seem to be special to each case. But the Bank has been impeded, for example, by inflationary monetary fiscal policies, by the failure of the borrower to perform satisfactorily on other loan projects and by disturbed political conditions. There is nothing new about these problems, and I have mentioned them to you before. But, most assuredly, they still exist.

On the other hand, the Bank has been unusually active in investigations looking toward new lending. In the past nine months alone more than 40 member countries and dependencies have been visited by Bank missions of one sort or another. I myself have just returned from a trip to the Middle East in which I was able to visit seven member countries.

According to their purpose, these missions have varied widely in composition and function. As part of routine procedure, for example, the Bank has periodically sent out small staff missions to check on the progress of Bank-financed projects. In other cases a mission may include, along with Bank staff members, experts recruited from other international or national organizations, both public and private. It may remain in a country for as long as several months making various types of economic studies or examining development plans and projects. Our recent loans to Northern Rhodesia, India and Yugoslavia were the direct results of studies and recommendations of missions of this type sent to those countries last summer. The groundwork for loans to more than a dozen other countries has now been prepared by similar missions.

In a special category are the missions sent to new members. Their purpose is to acquaint the Bank with the general financial and economic situation in the country as a foundation for our possible future participation in its development. In the past year, as you know, the Bank gained three new members: Germany, Japan and Burma. Each of these countries has now been visited by a mission of this character.

In the field of technical assistance the general survey mission continues to be the principal way in which the Bank has provided aid to its members.

During 1952 the reports of survey missions were transmitted to the governments of Iraq, Surinam, Ceylon, Nicaragua and Jamaica. In addition, the report of a joint Bank/FAO mission to make recommendations for agricultural development was presented to the Chilean government. In all, including the mission just returned from British Guiana, the Bank has sent out ten survey missions since 1949.

On the whole, the response to the missions' work has been encouraging. Even in the cases of those reports transmitted in 1952 there has already been action taken on the basis of various mission recommendations. In Ceylon, for example, the government is now studying the report of the survey mission to that country with a view to its use as the basis of a new five-year investment program. In the meantime, it is taking steps to carry out the major administrative recommendations of the mission: An Economic Committee of the Cabinet has been established and plans for an Institute of Applied Research and a Development Corporation to finance industrial development are being worked out.

In Iraq the mission's report has served as the basis for a five-year investment program which puts major emphasis on the development of water resources and the improvement of agriculture. The government has also undertaken studies in the industrial field as suggested by the mission. In Surinam the government has submitted to the legislature a five-year development program based on the mission's report.

In Nicaragua, instead of the usual survey mission, the Bank stationed a special representative and engineer for approximately a year. They were assisted by consultants from the Food and Agriculture Organization, the Federal Reserve Bank of New York, the Corporacion de Fomento de la Produccion of Chile and a transportation expert from the Bank's own staff. By September when the final report of the Bank's special representative was formally transmitted, the government had taken a number of steps along the lines suggested by him. It has (1) undertaken the organization of a National Development Institute to promote the growth of industry and agriculture, (2) started work on a number of projects which will be part of the five-year development program, (3) drawn up a budget which provides for a marked increase in development expenditure, and (4) undertaken major changes in its fiscal, budgetary and tariff policies. To assist the government in carrying out these measures, the Bank has agreed to continue assignment of a special representative and an assistant for an extended period.

Other types of technical assistance provided during the year have varied according to the particular problem on which the Bank's help was sought. Some aid has been furnished in cooperation with other international organizations. For example, in the summer of 1952, a joint mission of the Bank and the UN Technical Assistance Administration visited Panama to discuss steps to be taken toward the economic development of Panama as suggested in the report of an earlier Bank mission. Since then the Technical Assistance Administration has undertaken to provide experts in fiscal and public administration; and the Bank provided an expert to advise on problems of fiscal policy and helped to arrange for the services of consultants on problems of agricultural credit. In response to an inquiry from Ceylon the Bank has also agreed to join with the Technical Assistance Administration and an appropriate local organization in the sponsorship of a Technical Research Institute now being considered by that government.

The Bank has also been active in efforts to stimulate the mobilization of local capital through the organization of development banks and the marketing of domestic securities. Its Director of Marketing spent two weeks in the Philippine Islands in December advising on the developing of a government bond market; earlier the Bank and the Colombian government jointly sponsored a visit

X by an investment expert to advise on methods to increase the flow of capital ~~and~~ into productive private enterprise and means to develop markets for public securities in Colombia.

At the request of the Cuban government the Bank has undertaken to provide, among other aid, assistance (1) to establish, as a first step in the development of a capital market, a more effective securities exchange; (2) to advise on long range measures to stimulate the growth of local private investment, in particular a tax and legal structure appropriate to the corporate form of organization; and (3) to help the Agricultural and Industrial Development Bank improve its operating procedures and develop its credit in the private financial markets.

Bank officers have also been assisting with the establishment of a development institute in Nicaragua and a development bank in Iceland; and in January a Bank representative visited Lebanon to explore the feasibility of establishing a development bank in that country.

Still another type of assistance is that rendered by the Bank in arranging for a study looking toward greater use of the Indus system of rivers for purposes of economic development. During May and June 1952 engineers from India and Pakistan met at the Bank's headquarters, together with Bank engineers, to study possible technical means to increase the supply of water available from the system. After a recess to permit the gathering of technical data, the meetings resumed in Karachi and Lahore late in 1952. At the conclusion of these meetings it was decided that the engineers should meet again next September in Washington to prepare a comprehensive plan for the development of the Indus Basin, including preliminary cost estimates and a construction schedule for the new engineering works invovled.

Finally, I would like to say a brief word about the year that is now under way. For in some respects the world economic situation has changed very radically, almost reversed itself, since I met with you in Chile just over two years ago. Military requirements have now been largely accommodated, more or less successfully. The postwar backlog of demand for goods and services in the industrialized countries has been in large part satisfied. And the shortages and bottlenecks which plagued efforts to rebuild and expand industrial capacity have generally been overcome. Although inflationary pressures persist, inflation has to some extent subsided and a period of adjustment appears to be setting in.

Some of the implications are just beginning to be visible. A slowing down of the rate of productive growth and investment in industrial countries may have adverse effects on the export earnings of some underdeveloped countries. On the other hand, competition among industrial countries to supply needed goods and equipment will probably grow keener. And this may have the effect of stimulating a rise in direct private investment and private credits. Clearly, however, whatever the turn of events may be, there will be no slackening in either the demand for, or the urgency of, economic development. Nor will there be lessening in the effort that all of us will be called upon to make. We in the Bank look forward to an active year, the end of which will, we hope, show us a little closer to the goal for which we are striving.

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MARCH 17, 1953. 1930

ACTION COPY TO MR. ILIFF
MR. MENDELS
INFORMATION COPY TO
MR. BLACK'S OFFICE

TO: IBRD

FROM: ADDIS ABABA

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Information copy to: Messrs. Hoar, Knapp, Gregh, Wheeler,
Sommers, Rist, Graves, Cavanaugh.

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Confidential

Mr. Eugene R. Black March 18, 1953

Leonard B. Rist

MSA Guarantees and Foreign Securities.-

1. As you will remember, the MSA has the power to guarantee new American investments abroad in certain specified countries which are, for the time being, all in Western Europe. The risks guaranteed are transferability and expropriation. An annual fee is paid by the investor to ExImBank, agent for MSA.

The question was raised by certain MSA staff members whether the same system could not apply to securities issued by foreign corporations in the United States. For instance, an Italian firm would issue bonds in New York for say $10 million and a representative of (or trustee for) the American bondholders would pay the fee to the guaranteeing agency. The funds needed for the fee would obviously come from the Italian company. The MSA staff does not believe that any such operation could be undertaken unless the guarantee would cover foreign and civil war risks, and there has been some hints that such an extension of guarantee pattern would be favored by certain circles, including Mr. August Maffry. Although the MSA staff has not mentioned this, it is probable that any extension of the number of risks covered would also have to be accompanied by an extension of: (a) the period during which MSA can authorize new guarantees, which expires June 10, 1954, and (b) the period for which guarantees may be allowed, which expires April 2, 1962.

2. The MSA staff had a few very preliminary discussions with some bankers in New York on that subject. The suggestion described above was apparently received with mixed feelings. This is not surprising. Quite aside from the legislative problem involved in an extension of the MSA guarantee system, it seems to me that there are several adverse factors in the picture.

3. In the first place, the market for foreign securities will remain exceedingly narrow as long as institutional investors are not allowed to purchase them. The only interested parties would be individuals and this would keep down any operation to extremely modest proportions. In the second place, the very complexity of the machinery to be set up would not be an attractive feature in a security offering. Thirdly, the more risks the guarantee system would cover, the higher the fee; the cost to the issuer would probably be exceedingly high. My personal conclusion is, therefore, that while we should avoid taking a position on the subject if possible, we are entitled to remain skeptical as to the chances of success of such an operation.

4. At your suggestion, I asked Mr. Nelson Rockefeller for his opinion on the subject.

His approach was on a much broader line: he considers that the guarantee system is bad in itself, that it inevitably tends to place upon the United States government as a guarantor financial responsibilities which may involve infringements on the sovereignty of other countries, at least if a guarantee against expropriation is provided. In his opinion, the MSA guarantee system should be abandoned.

On the other hand, he feels that there might be a point in letting

.../

the ExpoetImport Bank use its own guarantee powers in conjunction with foreign bond issues, provided the guarantee would be limited only to transferability. In that case, the ExImBank would only put up the service in dollars when local currency is placed on its account in the debtor country, without entailing any infringement on sovereignty. He agrees, however, that the time may not be ripe for such operations.

5. As you are aware, Mr. Rockefeller's philosophy is that private capital is not in search of protection against risks but in search of opportunities. This is the basis of his general attitude and explains why he is definitely in favor of tax privileges to foreign investors abroad while opposing guarantees in general. This is also why he seems to feel that the prospects of investments abroad in the form of purchases of foreign securities are rather bright. We have, as you know, heard of several groups in New York and on the Pacific cost who are interested in investing mutual funds resources in foreign securities in Latin America or Western Europe. In Mr. Rockefeller's opinion this trend is a very genuine one and tax exemptions would considerably strengthen it.

Cc. Mr. Garner
Mr. Iliff
Sommers

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

SOME CONSIDERATIONS AFFECTING FOREIGN AID

Address by Eugene R. Black, President of the International Bank for Reconstruction and Development, to the Economic Club of New York, Hotel Astor, New York City, 8:30 P.M., January 14, 1953

..... I want to talk to you tonight about foreign aid, in its national as well as its international connotations.

This is a moment of transition -- a time of change in this country that also is of deep significance for the whole of the world. A week from now, a new captain will take command of the American ship of state. New personalities will man the bridge and the engine room.

The haven the ship is seeking may perhaps be the same as before. But will the course and speed stay unchanged?

It is inevitable that there will be a new look at the charts -- and at the fuel consumption. Policies at home, and in the wider spaces of international relationships, are certain to come under review. Fresh minds, fresh ideas, fresh techniques will be brought to bear, in a new attempt to meet those seemingly intractable problems we inherit at the mid-century.

International economics is a field in which both the World Bank and the American government are operating. Our business constantly brings us together. Most often, we meet in cooperation; but there inevitably have been situations where anomalies have arisen. It is now, in this moment of transition, that I think I can most appropriately offer some personal views about how operations might best be conducted in the common cause.

Fifty-four countries are members and stockholders of the Bank. If tonight I occasionally seem to discard all but one of the 54 hats that have been given me to wear, and speak to you as an American, I trust that my other 53 hatters will forgive me. For I have the interests of all my hatters in mind. And in any case, I hope that none of you will adopt my metaphor -- and accuse me of talking through my hat.

* * *

What is the philosophy underlying the American program of foreign aid? What are its objectives? What are we trying to get to?

Let me first mention an objective that in the postwar years has become uppermost in our minds. The threat of further aggression by international Communism must, for the present, be the first concern of the United States and the rest of the free world. We must be ready to meet force with force. So long as today's international tensions continue, the burden of defense must be carried. The sharing of that burden with our allies is obviously a proper instrument of United States policy.

I have neither the knowledge nor the professional competence to express a view about the size and scope of America's contribution to this joint defense effort. I do believe, however, that what we contribute to the common defense should not be regarded, either here or abroad, as foreign aid in the normal sense. Its amount should be determined by criteria quite different from those used in determining what kind of a foreign aid program there should be. It should not be in a form which would encourage the recipients to look on it as a permanent and major prop to their economies and which would weaken their incentive to take action of their own to build a more stable base.

For my part, I see the continuing purpose of American economic policy in something like the following terms: It aims at building up a world economic system based on steadily increasing standards of living here and abroad. It would seek to do this in two ways: first, by re-establishing multilateral trading relationships among the nations of the free world, resting on full convertibility of currencies and non-discriminatory trade; and second, by increasing the productivity of underdeveloped countries and the standard of living of their peoples.

What have been the instruments, supplementing private investment, which the American government has used to achieve this long-term objective?

For Europe, there has been the Marshall Plan.

For the underdeveloped world, the official American position has been that Point Four and loans from existing institutions engaged in international lending would provide the assistance needed to raise productivity and living standards.

* * *

How far have these instruments taken us toward the objective?

So far as Europe is concerned, you only need to compare the situation of today with that of 1947 to conclude that the expenditure of 12 billion dollars by the United States has helped Europe accomplish much. Production and exports are higher than before the war. Inflationary pressures have lessened. Living standards have been maintained. Europe has been lifted from economic prostration.

But in spite of all the progress made, and even before Korea imposed new burdens of rearmament, dollar balance had not been restored. Europe was still unable to purchase supplies of great importance to her economy, to the tune of some one to two billion dollars a year. Here is the so-called "dollar gap" which up to now has been filled by American aid. And the gap was of that size, even while Europe had been imposing, by and large -- and as she still is -- the most severe restrictions against imports from the dollar area.

Evidently, reconstruction, of itself, has not been enough.

* * *

In the underdeveloped world, a start has been made. In many countries of that world, there is an awakening, a new stirring of energies, that promises well. The United States -- and the other industrial nations as well -- have recognized the advantages to themselves of supporting economic progress in underdeveloped areas, and have provided growing amounts of financial and technical aid.

A beginning has been made in building up basic utilities such as power and communications. Projects for the development of agriculture have been initiated. Modern roads, ports and harbors have been constructed. There is an increasing amount of sound planning for the future. These are the foundations that must be laid before there can be any further advance toward that standard of living to which the peoples of the underdeveloped countries legitimately aspire.

In my visits to member nations of the Bank, I have seen at first hand some of the underprivileged millions who are continually faced with the specter of hunger -- who have never known what it is to have decent shelter, decent clothing, adequate medical care or the elements of an education. I know that there is a job here that is worth doing, but I know, too, what it will cost to do it, in terms not only of money but of time. Progress has not been so rapid as many of us would have wished, but there is no easy, quick way to win the fight against poverty.

* * *

We can nevertheless point to real achievement during the past five years in Europe and many other parts of the free world.

* * *

Building a world economy of the kind we seek is an enterprise which cannot be successfully undertaken by any one country or group of countries, alone and unaided. Each nation has its own contribution to make; each can ensure that the human, material, and financial resources available to it, be they great or small, are set to work in such a way as to produce the best possible end result in the shortest possible time.

It is when I view world economic development from that angle, and in the light of my experience with the problem over the years that I have been associated with the World Bank, that I have begun to ask myself whether all who have a direct interest in this enterprise have put themselves in a position to throw in their maximum contribution or have applied their efforts in the most effective way.

* * *

First let me speak of the underdeveloped world.

Many who advocate large-scale foreign aid as a solution to the economic backwardness of these countries recognize, in theory, the need for internal changes and local effort but, in practice, they place all the emphasis on outside assistance. The theory that backwardness can be overcome with billions of dollars is based on the assumption that most countries that are backward are backward solely because they lack financial resources. It ignores the fact that the insufficiency of financial and other resources, as often as not, is itself the product of political and social evils within the countries themselves; and that these evils, if attacked with vigor and courage, can be eradicated.

The belief that outside aid is the heaven-sent answer to the problem of economic development has been strengthened by the success of the European Recovery Program. It is argued that, if 10 or 12 billion dollars could change the face of the European economy almost out of recognition in the short space of four years, 10 or 12 billion dollars could do the same in the same time in other parts of the world. But this line of reasoning forgets that, while American aid to European reconstruction has been a vital part of the total effort, European countries themselves have financed ninety per cent of their reconstruction out of their own resources. The conclusions reached at the Commonwealth Economic Conference in London last month emphasize this facet of the economic problem of the underdeveloped countries. Both the advanced and the less developed members of the

Commonwealth subscribed to this statement: "The major sources of capital to promote development must come from within each country...Policies to stimulate domestic saving must be adopted....Capital from outside will then find a fruitful basis on which to work."

In the second place, Europe had a foundation of administrative, managerial, and technical skills on which a large and costly reconstruction and investment program could be based. The shortage of just such skills in most of the underdeveloped countries often leads to difficulties in the execution even of projects that are not unduly complicated, and is an obstacle to development at least as serious as the shortage of capital. Technical assistance from abroad can make a useful contribution here -- and an intelligent, coordinated program for this purpose is, I am sure, worth supporting.

In my view, however, the most urgent task confronting the political leaders in the underdeveloped countries of the world is to concentrate their efforts on mobilizing local resources, however slender they may be, and on applying them to economic expansion and to the betterment of the lot of their peoples. Foreign aid can never be more than marginal.

Nevertheless, capital injected from outside as a supplement to local resources can step up the pace of development. I have said before, and say again, that the present flow of capital to the underdeveloped areas is not adequate to the need, and must be increased if a satisfactory rate of development is to be achieved. But if there is not to be waste, foreign assistance must be related in amount to the absorptive capacity of the recipient country.

In so far as the need is not met by private investment, what form should this foreign assistance take?

On this point I hold certain definite and clear-cut views.

If the United States Government, for its own purposes, decides to extend foreign economic aid, I think it should do so in a form which will not impair repayment prospects on existing or future credit operations. Nor should it do so in a way that will lower international lending standards to a point which will make more remote than ever the day when private financial interests will be willing to enter the field.

Some months ago, on my return from a visit to one of the Bank's member countries, I was discussing my impressions with a Washington acquaintance. He felt that the situation called for the extension of financial assistance from the United States Government. "I think," he said, "we ought to give them a loan." Gentlemen, loans are not gifts. It may be easier to get funds from an economy-minded Congress if the request can be supported by the mollifying plea that the money may one day be repaid. But disillusionment may be the only inheritance of posterity.

In recent years, considerable support has been voiced in various quarters for a policy of giving aid in the form of long-term, low interest-rate loans. I have expressed -- and wish to repeat now -- my strong opposition to this proposal. Loans of this kind are, in essence, part loan and part grant. They have the inherent fault that they are not always apt to be regarded as serious debt obligations. Like all other "fuzzy" transactions, they therefore tend to impair the integrity of all international credit operations. And they accomplish nothing that cannot be accomplished equally well by an intelligent combination of real loans and real grants.

I hold the view that development loans should be confined to serious debt transactions, that they should be related to reasonable repayment capacity which has been carefully and objectively assessed, and that they should be made on terms that have come to be regarded as appropriate in normal practice. In my opinion, when political factors intrude -- and it is difficult to keep them out of intergovernmental lending -- it becomes impossible to ensure that these standards are always observed.

There may of course be cases where an injection of capital is needed to develop abroad some source of raw materials which are of such urgent and strategic interest to the United States that the project should go ahead even on an uneconomic basis. I put such situations outside normal economic development, and they would not fall within the scope of operations of the International Bank. But if the Government should decide to extend financial assistance in such a situation, I think the Government should recognize a responsibility for seeing that the financing is handled in a way which will not impair the capacity of the country concerned to service loan or equity capital coming into the country from other sources for the purposes of normal economic development.

There are circumstances where the International Bank will decline to make normal development loans -- for example -- because of absence of repayment capacity, or because the proposed project lacks economic merit, or because the borrower is unwilling to comply with certain prerequisites (for example, by working out a settlement of default on outstanding debt). But these circumstances which inhibit lending by the International Bank are surely the very circumstances which ought also to inhibit lending by the Government. To ignore them is to ignore the principles on which sound international loans should be based.

It is therefore my emphatic view that development lending should be strictly governed by the standards I have mentioned, and that any additional Government financing which can be made available for development, and which can be prudently used, should be frankly labeled as grant assistance.

* * *

And now a word about Europe. The problem still confronting Europe is how to pay her own way in the dollar world -- how to get, otherwise than through American aid, enough dollars to buy the supplies that are vital to her if her economy is to be sustained at least at its present level.

If Europe is to do this, the products of her industry must be offered at competitive prices in the export markets of the world. These markets mean, for Europe, not only the United States but also those third countries in the world where essential supplies can be bought or where there are dollars to be earned -- dollars originating either from American purchases of foodstuffs and raw materials or from American investments.

What can Europe herself do to increase her competitive power?

I think there are still elements of inflation to be stripped out of some of the European economies -- elements which are now adding a considerable burden to domestic costs of production. I think, too, that there should be every encouragement of the trend toward integration and rationalization of the basic industries of Western Europe. The Schuman Plan is an important advance in the right direction. The more that European industry can be integrated and rationalized, the more costs will be lowered as a result of specialization, and the more competitive will the position of Europe's products become. I am very well aware of the formidable difficulties and the traditional road-blocks that lie in the way, but I am convinced that more integration would benefit the economies of Western Europe.

* * *

And, finally, what of the United States?

The United States emerged from the Second World War as the world's greatest creditor nation, and with a production machine of a capacity unmatched in history. Since Korea, there has been a further great expansion in productive capacity which has made possible the satisfaction of defense needs without any significant deprivations in the civilian economy.

The problem confronting the United States is the converse of the problem confronting the rest of the world. The rest of the world is faced by the prospect of a chronic deficit; the United States is faced by the prospect of a chronic surplus. Up to now I do not think the United States has squarely faced up to this situation in a way that takes account of her economic position in the modern world. She still wants to be able to sell her goods freely abroad. She still welcomes any opportunities of making safe and profitable foreign investments. But she still resists the idea of throwing open her own markets to foreigners, which is the only way in which the rest of the world can be given the chance to earn the dollars it needs to buy her goods and to service her capital.

It is my belief that no other single factor could do as much, in the long run, to strengthen the world economy as an expansion in American imports.

I do not deny that there is still a strong protectionist sentiment in the United States -- an inheritance from an age when our world position was very different from what it is today. This is a sentiment which must be changed and which I believe can be changed. But what is needed is a new and liberal attitude toward imports and not merely a reluctant acquiescence in specific tariff reductions. After all, every dollar that leaves the United States must, sooner or later, find its way back.

I should like to see a nationwide campaign organized in which there would participate all leaders of public opinion in the United States who recognize the need for a changed attitude toward imports.

The object of the campaign should be to demonstrate to the American people that an increase in imports would be a gain, and not a loss, to the country, and that they themselves stood to benefit from it.

As taxpayers, because increased imports would bring nearer the elimination of European aid.

As consumers, because increased imports would bring to them better or cheaper goods.

As producers, because increased imports would provide dollars to foreigners with which to buy more American goods.

As investors, because increased opportunities for foreigners to sell in the American market would mean increased opportunities for profitable and safe American investments in foreign countries.

As champions of free competition, because their willingness to accept foreign competition would demonstrate that they were prepared to practice what they preach.

As American citizens, because the opening up of the American market to foreign goods would bring greater cohesion and good will in the Western world.

I realize the practical obstacles to any wholesale and over-night dismantling of American trade barriers. What is important is that the goal of import liberalization should be accepted, and that both Americans and foreigners should be convinced that a policy of lowering trade barriers is no passing phase in American commercial policy, but a break with tradition as complete as the abandonment of protectionism by Great Britain in the middle of the last century.

I do not claim that the lowering of American trade barriers is a short-term answer to the dollar problem. Time will be necessary. But that is the strongest reason for making a beginning now.

I know that in several quarters, both here and in Europe, the view is held that there is little to be hoped for in the way of an expansion of American imports, even under conditions of completely free access by foreign goods to the American market. They point to the increases in productivity of the American economy, and to the competitive advantages which, under those conditions, American industry will still enjoy. But surely it is axiomatic that it is in the interests of Americans that they should specialize in the production of those items where their natural resources and techniques can be applied to best advantage, and to trade those items for products from abroad where foreign techniques and resources produce a relatively better or cheaper article.

What is required is not that the American economy should lose all its self-sufficiency, but that it should be willing to become a <u>little less</u> self-sufficient than it is.

* * *

In summary, let me say once again that I think we have achieved much during the past five years. The United States has been confronted with immense and unprecedented problems in its relations with the rest of the world. It has reacted to the challenges which have confronted it with a speed and on a scale that have heartened its friends and disconcerted its enemies. If, in discussing American economic policy, I have paused here tonight to consider whether we have always acted in a way which would ensure the maximum return from our investment, I have not meant to belittle what has been done.

The times demand from us a multitude of actions. What I have tried to do here tonight is to indicate two things which I think it is supremely important for us to do. First, I think we need to continue and to increase support for economic development abroad. But in conducting its business in this field, the Government should recognize its responsibility to manage its own financial contribution in a way that will not prejudice the flow of capital from other sources.

Second, I think it is clearly not satisfactory to continue closing the dollar payments gap simply by giving away part of our production and persevering with a policy of "aid, not trade" or something like it. To Americans, this seems to create a comfortable disposition on the part of European countries to live at American expense. In European countries, it seems to create an unhealthy feeling of dependency, and sometimes of resentment against what is regarded as unwarranted interference in domestic affairs in cases where conditions have been imposed. Instead of creating good will and understanding, this kind of program tends in the long run to foster suspicion and acrimony.

What we need to do is to accomplish a fundamental and lasting change in United States commercial policy. Our present policy is a full generation out of date. It takes no account of our role as a creditor nation, no account of our greatly expanded contacts with, and responsibilities to, the rest of the world. Clearly, what the United States should do is to open her markets to the free world. We must put our economic partners in a position to pay in their own goods and services for the goods that Americans want to sell and they want to buy; we must put our partners in a position to service the capital that Americans are able and willing to invest and they want to use.

In broad, the challenge that faces Americans today is to exercise wisely the economic leadership that -- whether we like it or not -- we have inherited just as surely as we have inherited the political leadership of the free world.

We have met our challenges in the past. Can we meet this one? I think America can, and I think America will.

Messrs. Demuth, Rist, Rosen and Sommers January 9, 1953

Harold Graves HGr

Draft of Mr. Black's Speech

Attached is a draft of Mr. Black's speech to the New York Economic Club. Mr. Iliff would appreciate your letting me have your comments by 4 o'clock this afternoon.

HGRAVES:mb

Hardly any change —

still gradual tariff abolition.

see also p. 7 —

no clear statement that we are willing to expand lending to take up slack of Eximbank.

BALSACIAN STUDIES

17, rue d'Astorg

Paris, December 23, 1952

Mr. Jacques Schricke
French Embassy
Washington

Dear Sir,

Answering your letter Nr.887 of December 9, 1952 we are glad to give you the information you requested.

The chateau de Sache, which belonged to Mr. de Margonne, friend of Balzac's family, was both a restful and a stimulating retreat for the novelist. He wrote there several of his major works: Le Pere Goriot, Cesar Birotteau, Louis Lambert, La Recherche de l'Absolu, les Illusions Perdues, Seraphita, etc.

The chateau is today the property of Mr. Bernard Paul-Metadier (Chemical Laboratories) who is an eager Balzacian. In 1951 he founded a Balzacian museum in the castle which is open to the tourists. Sache is situated in the Indre valley, a few kilómeters from Tours.

Since, as we believe, Mr. Black happens to travel often to France, it will be easy for him to visit the house during one of his next trips. We would be very glad indeed to help him contact personally Mr. Metadier. Furthermore, Mr. Black being a subscriber to our magazine, we are at his disposal for any additional information he would care to ask concerning Sache, the way to go there and to meet the present owner.

Thanking you for giving us the òpportunity of being of service, we beg to remain.... etc.

s/ Jean A. Ducourneau,
Director

Stric..y Confidential

DECLASSIFIED
Date: 11/15/2010 STB

Mr. Eugene R. Black

December 24, 1952

Leonard B. Rist

Your query regarding Economist's remarks on German debt settlement.-

1. The London Conference of February-August 1952 did not reach an "agreement" binding on all parties but agreed on a "report" containing a "Settlement Plan" i.e. recommendations for a final settlement.

2. Paragraph 38 of the report states:

> "In the interest of the re-establishment of Germany's credit abroad and in the interest of the creditors whose claims have gone unsettled for many years, the recommendations contained in this Report should be dealt with by the interested Governments without delay, with a view to entering into an Intergovernmental Agreement to give international authority to the Settlement Plan simultaneously with a settlement of the Federal Republic's debts in respect of post-war economic assistance."

3. The negotiations recently held in London concern the drafting of the "Intergovernmental Agreement" mentioned above. It was not expected that the recommendations adopted in August would be submitted to renegotiation.

4. Paragraph 21 - the text of which is annexed - is most ambiguous. It provides both that service be resumed - in accordance with the Report - and that account be taken of the uncertainties regarding the prospects of the German balance of payments. This could have been construed as a pious reminder of elementary economic principles - since the future balance of payments of Germany had been extensively discussed at the conference. It would appear from the observations of the Economist that it might be used to negotiate new concessions on the part of the creditors who already consented in the Plan to forego amortization during the first five years.

5. However, the State Department informed us that almost full agreement has been reached on the wording of the Intergovernmental Agreement. In implementation of Paragraph 21 of the "Settlement Plan" it provides for consultations between governments in case Germany should run into serious difficulties on account of the transfer. This consultation clause which is somewhat like similar clauses in ECA agreements has been circulated to the various governments concerned and the State Department expects that discussions will be held in London during January to finalize the agreement.

6. Thereafter the agreement will have to be ratified by the Bundestag where it may run into some opposition. The State Department does not anticipate that the opposition will be of such a force as to create great difficulties.

7. As you will note, this would be epoch making in the history of foreign bonds. For the first time bondholders would have in their hands not a firm undertaking

but a firm undertaking subject to consultation at a later stage. Realistically speaking, this is of course the implicit position of any bondholder but he usually shies away from ambiguities such as the explicit prospect of future renegotiation on transfer. I would not look forward to a quick pick up of German bond quotations under the circumstances.

ANNEX

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Paragraph 21

"The Intergovernmental Agreement mentioned in paragraph 38 should provide that the Federal Government will resume the transfer of interest and amortization instalments in accordance with the Settlement Plan, and will do everything in its power to ensure such transfer.

The Conference recognized the principle that the transfer of payments under the Settlement Plan implies the development and the maintenance of a balance of payments situation in which those payments, like other payments for current transactions, can be financed by foreign exchange receipts from visible and invisible transactions so that more than a temporary drawing on monetary reserves is avoided. In this connection due consideration should be given to the fact that the convertibility of currencies has not yet been re-established. The Conference therefore recognized that the development and maintenance of this balance of payments situation would be facilitated by the continuance of international cooperation to promote liberal trade policies, the expansion of world trade and the revival of the free convertibility of currencies. It recommends that due account should be taken by all concerned of the principles referred to in this paragraph.

In preparing the Intergovernmental Agreement consideration should be given to working out provisions designed to ensure that the Settlement Plan is operated and fulfilled to the satisfaction of all parties concerned including provisions to apply in case the Federal Republic, in spite of its utmost efforts, is faced with difficulties in carrying out its obligations under the Plan."

Mr. Eugene R. Black November 5, 1952

Leonard B. Rist

Conference of the European League for European Cooperation.-

Mr. Rooth told me today that the Fund has received a similar invitation from Baron Boel and was sympathetic to sending a delegate. A formal decision has, however, not yet been made.

I have accordingly not mentioned the Fund in the attached draft letter from you to Baron Boel.

1 encl.

Mr. Walter Hill
Special Representative
International Bank for
Reconstruction & Development
67, rue de Lille
Paris 6e, France

Dear Walter,

Herewith copy of correspondence exchanged with Baron Boel which is self-explanatory.

I understand from Mr. Rooth that the Fund has received a similar invitation and is currently considering sending an observer to the conference.

I hope that you will be able to attend and that the debates will throw some light on the rather intricate subject the conference is supposed to tackle. As you will notice, the agenda includes a number of most controversial subjects into which we as an institution do not particularly care to be involved at this stage. This is the reason why I suggested that you attend as an observer rather than as a delegate.

Sincerely,

Eugene R. Black

att.

Form No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Eugene R. Black

DATE: November 4, 1952

FROM: Leonard B. Rist L.R.

SUBJECT: Attached letter of Baron Boel.-

The European League for Economic Cooperation is, according to Professor Harrod, now "adviser" to the IMF, a purely private, enlightened and lively group of businessmen, mainly bankers, statesmen and University professors. Since 1949 they have endeavored to contribute concrete suggestions towards the solution of a number of European economic and financial problems. Their meetings are always very short, which precludes lengthy speeches, and they are supposed to end up with agreed programs not resolutions. In short, the atmosphere is similar to that of C.E.D.

One of their prides is that they had, a month or two before EPU was adopted in Paris, proposed a similar solution.

The subject to be discussed in January in Brussels is not one which would carry unanimity as easily as EPU. It clearly includes such controversial issues as "Federal Reserve Bank" for continental Europe, role of sterling in Europe, discrimination or non-discrimination versus the dollar, and institutional problems related thereto. All issues in which the IMF is incidentally more directly interested than the Bank.

Since the group is good and the subject a rather dangerous one, I suggest that you accept the invitation and ask one person to attend as observer in his personal capacity rather than as representative of the IBRD.

att.

EUROPEAN LEAGUE FOR ECONOMIC COOPERATION (E.L.E.C.)
A.S.B.L.

Bruxelles, 16th October 1952
7, rue des Pétits Carmes

Le President

Mr. Eugene Black
President of the IBRD
Washington 25, D.C.

Dear Mr. Black,

I beg to inform you that the European League for Economic Cooperation (E.L.E.C.) will hold a Monetary Conference at Brussels, on the 29, 30 and 31st January 1953. Its object will be:

"The Monetary Reconstruction of Europe and its contribution to the economic and social progress".

You will find attached a notice outlining the subjects to be dealt with.

You certainly heard of the work already accomplished by E.L.E.C. and, for your information, I am sending you by separate mail some of our publications. Our studies are greatly appreciated by Governments and official international organizations, as well as by American private associations.

Many experts belonging to the circles interested in the reestablishment of healthy currencies have accepted to participate in the conference's discussions, and notably: economists, bankers, industrialists, trade-unionists, members of parliaments and, if possible, observers attached to international official institutions.

Our conference is already assured of the participation of prominent personalities, some of whom have taken part in preliminary discussions: M. Emmanuel MONICK, President of the Bank of Paris and the Netherlands and Honorary Governor of the Bank of France; M. Louis CAMU, President of the Bank of Brussels; Dr. Richard MERTON, President of the Metallgesellschaft; Professor Roy HARROD*, of Christ Church, Oxford; Dr. C.AS.KLAASSE, Director General of the Amsterdamsche Bank, N.W.; M. R. de la FORTELLE, Director of the Credit Lyonnais ; M. E. GISCARD D'ESTAING, President of the French Committee of the International Chamber of Commerce ; Professors Fernand BAUDHUIN and Paul ROUSSEAUX of the University of Louvain.

* Professor Harrod has provisionally left our association in view of his recent official mission at the I.M.F.

Up to the present time, Mr. Hermann J. ABS and M. Jacques RUEFF have been prevented from attending such discussions owing to their official obligations at the time, but they will join in the next preparatory meeting.

I should be very glad if the IBRD would accept to participate in the work of our Monetary Conference by sending either delegates or observers to Brussels. In the affirmative, would you kindly let us know the name or names of the personalities designated to represent your organization so that we may address them personal invitations.

We shall not fail to let you have the preliminary report which is being prepared presently by M. Lucien L. SERMON, the Economic adviser of the Societe de Bruxelles pour la Finance et l'Industrie (BRUFINA).

Thanking you in advance for an early reply, I remain, dear Mr. Black

Very truly yours,

s/ Baron Boel

EUROPEN LEAGUE
FOR
ECONOMIC COOPERATION

General Secretariat

7, rue des Petits Carmes
Brussels, October 15, 1952

Document Nr.182

MONETARY CONFERENCE

(Brussels 29, 30 and 31st January 1953)

Summary Plan of the Report*

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ELEC's Monetary Conference will deal with the "Monetary Reconstruction of Europe and its contribution to the economic and social progress". Its aim is to seek the means which will enable the Western European countries, in the circumstances to be foreseen within the coming years, to render their currencies the maximum of convertibility between them andm on the other hand, with the currencies of the rest of the world.

Taking into account the new situation developed by the working of the Schuman plan and the study by an ad hoc assembly of a Draft political constitution for the six countries concerned, the Conference proposes to study the various processes which might ensure the total and general interconvertibility which remains ELEC's final goal. To this effect, the Conference will:

1. envisage the different degrees of interconvertibility which might be realized between the European currencies, putting into light the transfers of powers each of them would entail;

2. study the political structures which might allow such transfers to a central power;

3. study, in each case referred to, the means to avoid the autarcic tendencies which might arise out of the formation of regional unkons, and develop on the contrary the interconvertibility of the currencies of the participating countries with those of the other member countries of E.P.U., which would nnt deem it possible to adhere to the new mechanisms;

4. examine also the relations between each of the systems envisaged and the monetary dollar area; study notably the most efficient contribution which might be brought to fill up the dollar gap and, if necessary, what organs should be crated to this end;

5. study the economic and social impact of interconvertibility; establish that the interconvertibility of currencies, even in gold, does not at all compromise the observance of the social rights which are generally unquestioned in the Western world, but on the contrary may improve the standard of living and the security of the workers in all professions.

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* A more detailed scheme of the report will be sent to the natkonal sections within a few days.

CONFIDENTIAL

Secretary's Memorandum No. 1-6

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

DECLASSIFIED

Date: 11/15/2010 STB

FROM: The Secretary

October 22, 1953

STATEMENT OF MR. BLACK TO THE
RANDALL COMMISSION, OCTOBER 21, 1953

I am happy to have an opportunity to appear before this Commission. The subject you are studying is one of the most important in the world and your views will be of great interest to all of us who work in the field of international trade and international investment.

It was only yesterday that I received an invitation to appear before you and I do not know what stage you have reached in your studies. In view of my connection with an international organisation, it would obviously not be appropriate for me to discuss United States political or strategic policy. Nor does it seem feasible or useful, at the present stage, to try to describe the Bank and what it is doing and can do in the field of international investment and trade, or to anticipate the specific problems that you will undoubtedly run across in your studies, on which the Bank as an institution might have some ideas. In the circumstances it seems best to me to try to explore, in a rather general and preliminary way, the essential economic problem with which your Commission is faced, as I see it on the basis of my experience in the field of economic development and international finance.

The problems of international trade and international investment are closely related. In each of these fields your Commission is confronted today with a very different set of facts than existed when United States policies were originally formulated. The world is different and the place of the United States in that world is different.

Sec.8-57

The American trade policy that was formulated in the 19th century was conceived in the light of conditions then existing in a young, undeveloped debtor country. The United States was not of great economic importance to the rest of the world and tended to take conditions in the rest of the world somewhat for granted. Politically and economically, the attention of the United States was focused on the area within its own borders. But even in the 19th century, the pressure for industrialization, particularly after the Civil War, was bringing about a change in trade structure. While in the decade of the 70's 33% of U. S. imports were finished manufactures, in the decade preceding the First World War less than one-quarter of total imports were in finished manufactures. Exports of finished manufactures from the U. S. went up from about 15% of total exports to almost 30% of total exports in the same period. Even more important than the change in trade structure was the fact that the volume of U. S. trade with the rest of the world was rising rapidly. While in the 19th century the impact of U. S. trade policies on foreign countries was relatively small, the growth of the U. S. both as a market and as a source of supply for other countries had materially changed the picture by the beginning of the First World War.

World War I brought about a further expansion of United States interests overseas. The war stimulated agricultural production and industrial growth which continued in the 20's and gave increased importance to foreign markets. In the field of certain raw materials, such as copper, American interests began to develop foreign sources of supplies on a large scale.

World War II marked a more dramatic change in the importance of the United States in the world economy. Expansion of both agriculture and industry was based largely on the requirements for American goods beyond the borders of the United States. These requirements remained high after the end of the war and stimulated production all through a period which many had predicted would be one of painful recession. In large part, the outflow of goods after the war was financed by United States Government grants and loans, through the Marshall Plan and other programs. An added stimulus to the outward flow of goods was provided by the Korean war and the Western rearmament policy. In broad terms, it can be said that the Foreign Aid programs of the Government have financed over $30 billion of exports from 1946 to 1952, or about one-third of total exports for this period.

In the post-war period, the American crops have been geared to export to a considerable extent and distinctly more than before the last war. Although the figures are well known, they are worth repeating. In the three crop years 1950-1952 the U. S. exported 39% of its rice production, 38% of its cotton production, 37% of its wheat and flour, 26% of its tobacco, 20% of its soy beans. Exports of finished manufactures also experienced an increase and in 1950 foreign markets took 25% of the textile machinery manufactured in the U. S., 22% of the machine tools, 21% of the tractors, 16% of the oilfield machinery, 13% of the Diesel engines, 11% of the motor trucks and agricultural machinery. A similar development has taken place in the category of services.

Thus, the United States has expanded and consolidated its role as provider of foodstuffs in the world. It has established itself as a provider of manufactured goods and services. But so far as crude materials are concerned -- in particular metals -- their role in American exports has declined from some 70% around 1820 to some 30% today. Their role in American imports on the other hand has risen considerably and is still rising.

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Thus, the United States has expanded and consolidated its role as provider of foodstuffs in the world. It has established itself as a provider of manufactured goods and services. But so far as crude materials are concerned -- in particular metals -- their role in American exports has declined from some 70% around 1820 to some 30% today. Their role in American imports on the other hand has risen considerably and is still rising.

Chromium, manganese, bauxite, natural rubber, tin, diamond, nickel, mica and many others, of which there is no substantial domestic output, have taken on a far greater importance in American industrial production. Imports of iron ore, which played almost no role in the past, have become significant for our steel industry. During the last fifteen years the U. S. has also become an importer of petroleum, lead, zinc, copper and lumber. Industrial production in this country -- in peace and in war -- has become increasingly dependent on foreign supplies, and, as the Paley report predicts, this trend will probably continue in the future.

No less striking has been the change in the international capital position of the United States from debtor to creditor. In 1914 the United States had a net debtor position of some $3.6 billion. The large capital outflows of the twenties changed this to a net creditor position of roughly $9 billion on private account in the early thirties. In the late thirties there was a large inflow of foreign capital but this was offset by the renewed interest in investment abroad evidenced by American business since World War II. As a result, by 1951 the net creditor position of the U. S., on private account, stood at over $7 billion. In addition, the U. S. Government had become a large net creditor, raising the total net creditor position of the country to well over $15 billion.

We hear a good deal today about the contribution that private foreign investment can make. And, in fact, although the amounts are dwarfed by the figures for U. S. Government aid, private capital has been moving abroad on a larger scale than many people realize. From 1946 to 1952, Americans invested abroad nearly $12 billion, exclusive of reinvested foreign earnings. Even after allowing for repatriation and repayments on foreign investments, the net figure amounts to $5 1/2 billion, a figure which is comparable with the peak capital exports of the 20's, even allowing for the decline of purchasing power of the dollar. But if these capital movements are to continue, and even to increase, investors must feel reasonably assured that they will be able to transfer back capital and earnings in dollars. This does not only depend on the success of their ventures abroad, it also depends on the availability of dollars to the foreign countries where these ventures are established, in other words, on the extent to which the United States imports foreign goods and services.

With all these developments of modern times, Americans can no longer think of their country as self-sufficient. Nor can the rest of the world escape the effects of the United States economy, with its tremendous capacity and productivity. The outlets for many of the country's basic products are abroad; the sources of supply of many of its indispensable materials are abroad. Foreign trade absorbs a significant part of our production and contributes in an essential way to this production. The rest of the world owes vast amounts to the United States and its citizens.

It seems clear to me, therefore, that the United States today, and you gentlemen in your studies, are faced with an entirely different set of facts than those which existed at the time when United States basic policies in the international economic field were framed. It seems to me inescapable that an examination of the international economic policy of the United States must be based on these present facts rather than on a situation that no longer exists.

Essentially there appear to be three alternative lines of policy:

(1) The first is to allow the level of exports to sink to match the volume of imports that can be maintained under present policies.

(2) The second is to maintain a high level of exports by providing a substantial volume of grant funds out of the United States Treasury.

(3) The third is to allow the level of imports to rise so that other countries can earn more dollars and increasingly buy the products of United States agriculture and industry and service American investments.

I do not mean to imply that the United States must necessarily choose one such line of policy to the absolute exclusion of the others. Nor do I mean that a choice by the United States will be effective to achieve an expansion of world trade regardless of what is done in other parts of the world. Obviously other countries must play their own part. But the United States, with one-sixth of the world's imports, one-fifth of the world's exports, and over one-third of the world's productive capacity, occupies such an outstanding position that its line of policy will be one of the most decisive factors in influencing other countries. Unless the general direction of United States policy is clear, and is followed with some continuity over a relatively long period, the other countries will not have a firm basis for their own policies.

I should like to emphasize the importance, as it seems to me, of clarity and continuity of policy in this field. One of the characteristics that distinguish international business from domestic business is the difficulty of any long-range planning by businessmen and by governments, because of the existing uncertainties as to basic lines of policy which governments will follow. A foreign government desiring to make its currency convertible can hardly begin to think about the subject without making assumptions about the long-range trend of United States trade and investment policy. A businessman outside the United States cannot today plan to produce and sell products for the American market without trying to guess the long-range direction of United States policy. An American businessman, planning to open up new markets for his products, or to make an investment abroad, must base his decision in large part on the likelihood that the country in which he intends to operate will be able to earn dollars over a period of time to buy his products or service his investment -- and this in turn will be decisively influenced by the general line of United States policy.

Of course I realize no one in the United States can give any guarantee that a particular line of policy will be followed over a long period of time. The necessary continuity of policy can, in the long run, only result from an informed consensus of public opinion, which has considered alternative courses and has decided what course is best suited to the country's needs. The stimulation of such a body of opinion is, it seems to me, an essential part of the work of your Commission.

I believe that Americans have one common characteristic which should help to bring about such a consensus of opinion on the subjects which your Commission is considering. Most Americans, I believe, think of the United States economy as dynamic, rather than static. They are not content to say "let's sit back and hold on to what we have". They are willing to put their faith and their effort behind the concept of a growing competitive economy, increasing productivity and rising standards of living. That is the way the United States economy has developed in the past and the way I believe most Americans think it should develop in the future.

Such a tradition has great implications for our present problems. For it is becoming apparent that the United States economy is increasingly tied in to the world economy and that an expansion of United States trade must take place as part of an expansion of world trade. If the United States is to find markets for its products and materials for a growing industry, there must be increased productivity outside of its borders as well as within its borders.

This, as I see it, is the way in which the problem of development ties in to your studies. If there is to be a pattern of expanded world trade into which an expanded United States trade can fit -- in fact, if there is to be the kind of world in which international trade and investment can flourish -- there must be a continued development of the productive resources outside as well as inside the United States borders.

This is also where the International Bank comes into the picture. For our principal purpose is to promote international investment in order to foster the development of productive resources and so contribute to the expansion of world income and trade. We therefore will follow your work with special interest and will be happy to help in any way we can to further this objective.

ANNEX A

COMMISSION ON FOREIGN ECONOMIC POLICY

DUTIES OF THE COMMISSION

(a) In General. -- The Commission is directed to examine, study, and report on the subjects of international trade and its enlargement consistent with a sound domestic economy, our foreign economic policy, and the trade aspects of our national security and total foreign policy; and to recommend appropriate policies, measures, and practices.

(b) Certain of the Matters to be Considered and Reported On. -- Without limiting the general scope of the direction to the Commission contained in subsection (a), the Commission shall consider, and shall report on, the following matters:

(1) (A) Applicable provisions of the Constitution of the United States;

(B) Laws, regulations, and practices of the United States relating to international trade, including such matters as tariffs, customs, customs administration, trade agreements, peril point and escape procedures, opinions and decisions thereon of the United States Tariff Commission and the President, import and export quotas, monetary licenses, countervailing duties, and procurement preferences;

(C) Departments, agencies, boards, commissions, bureaus, and other instrumentalities of the United States having jurisdiction over, or dealing with, these matters;

(D) Laws, regulations, and practices and official instrumentalities of other nations concerned with similar subject matters;

(E) Pertinent statistics on international trade; and

(F) Balance of payments, nation by nation; and the causes and effects of, and proposed remedies for, excessive imbalances.

(2) Relationship of our foreign economic policies to, and their influences on, our total foreign policy; and the proper relationship of each to the other.

(3) Effect of our foreign aid and military defense programs on international trade and international balance of payments.

(4) Foreign markets of trading nations -- extent and nature; and the effect thereon of wars, other emergencies, technological advances, international relations, and other pertinent factors.

(5) International instrumentalities, organizations, and agreements and practices affecting trade, such as the General Agreement on Tariffs and Trade, Customs Unions, Organization for European Economic Cooperation, International Wheat Agreement, cartels, European Payments Union, European Coal and Steel Community, and International Monetary Fund.

(6) Foreign investment capital and the flow of investment capital between nations -- need thereof -- restrictions thereon -- inducements necessary to encourage -- role of the Export-Import Bank and of the International Bank for Reconstruction and Development.

(7) Effects on international trade of factors such as costs of production and pricing, labor practices and standards, general living standards, currency manipulation, inconvertible currencies, official inflationary policies, currency devaluations, exchange controls and licenses, quotas, embargoes, dumping and pricing practices, multiple currencies, bilateral trade agreements, barter arrangements, customs procedures, marking and transit problems, concealed regulation of exports and imports, preferential tariff systems, most-favored nation treatment, government monopolies, state-controlled economies, state trading, and state-subsidized trading.

(8) Effect of existing and proposed trade policies on the promotion of peace and security and the betterment of political, social, and economic life, domestic and foreign.

COMMISSION ON FOREIGN ECONOMIC POLICY

The following are members of the Commission on Foreign Economic Policy:

Clarence B. Randall, Chairman

Chairman of the Board, Inland Steel Company
Chicago, Illinois

Jesse W. Tapp

Executive Vice President, Bank of America
San Francisco, California

John Hay Whitney

Senior Partner, J. H. Whitney & Company
New York, New York

David J. McDonald

President, United Steel Workers of America - CIO
Pittsburgh, Pennsylvania

Cola G. Parker

Chairman of the Board, Kimberly-Clark Corporation
Neenah, Wisconsin

John H. Williams

Professor of Political Economy, Harvard University
Cambridge, Massachusetts

Lamar Fleming, Jr.

President, Anderson, Clayton & Company
Houston, Texas

Congressional Members

Sen. Eugene D. Millikin	(R)	Colorado	Finance
Sen. Bourke B. Hickenlooper	(R)	Iowa	Foreign Relations
Sen. Prescott Bush	(R)	Connecticut	Banking & Currency
Sen. Harry F. Byrd	(D)	Virginia	Finance
Sen. Walter F. George	(D)	Georgia	Foreign Relations
Rep. Daniel A. Reed	(R)	New York	Ways and Means
Rep. Richard M. Simpson	(R)	Pennsylvania	Ways and Means
Rep. John M. Vorys	(R)	Ohio	Foreign Affairs
Rep. Jere Cooper	(D)	Tennessee	Ways and Means
Rep. Laurie C. Battle	(D)	Alabama	Foreign Affairs

Mr.Eugene R. Black

August 11, 1953.

W. A. B. Iliff

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Here are some suggestions for your Long Island talk which Mr. Rist has worked out with me.

Attachment.

SUGGESTIONS FOR MR. BLACK'S TALK AT LONG ISLAND SEMINAR

1. The International Bank is in the business of making and fostering international capital transfers.

2. The role of capital movements has been recognized for many decades. They are helpful in maintaining equilibrium, in fostering investment and, therefore, in broadening the field of international trade beyond the degree immediately financed by them.

3. During the nineteenth century and the beginning of the twentieth most long term capital movements arose out of independent decisions by private investors. They did not take place because of any conscious desire on the part of the investor to remedy a balance of payments disequilibrium: they happened because certain investors were attracted by opportunities. Their economic consequences were achieved, but not by design. Since the 1930s, private capital movements have been largely superseded by "public" operations. Even before 1939 the "cash and carry" provision of U. S. legislation prevented private credits to the Western allies; during the war, lend-lease was a government operation; since the war, large amounts of capital have been transferred directly through government channels or through the operations of the International Bank.

4. In other words, since the war, the bulk of international capital movements, instead of being <u>induced</u>, has been <u>directed</u>.

Motives Underlying International Capital Movements

5. It is not conceivable that governments should continue to carry the bulk of the burden. All recent discussions about reviving private capital

movements amount to a recognition of the desirability of a return, as far as possible, to the prewar pattern.

6. The motives underlying capital movements therefore become important.

7. The main motive of private investment abroad is not any desire to go abroad but the attraction of a profitable opportunity: a venture located abroad will be attractive only if it is more profitable than a venture at home.

8. Contrary to the prevailing illusion, private capital movements have taken place on a substantial scale since the war. It is estimated that the London market has provided some $3 billion of private funds to the rest of the Commonwealth since 1946, partly in bonds but mainly in shares and direct investment. The American market has invested abroad, mostly in the form of direct investment, probably more than $6 billion, including reinvestments. The large majority of American investment abroad has come from large corporations and not from individuals.

9. Individuals look essentially to liquidity, which "non-convertibility" denies them.

10. There are signs of a return to a degree of equilibrium in world payments (for instance, the contraction of the dollar gap). If transfer problems and, therefore, liquidity, cease to be a major consideration, there is the probability that some investments will take place when the return is high enough to be attractive, and that the interest of a new class of investors may be aroused, namely those who are now investing in mutual trusts in the United States.

11. Some attraction in the form of a degree of tax exemption by the U. S. Government would be a powerful inducement.

12. The motives underlying the large government transfers that have taken place since the war have arisen out of the new feeling of world solidarity and, in particular, of international responsibility current especially in the United States (UNRRA, Interim-Aid, Marshall Plan, MSA, Colombo Plan, Technical Assistance grants, etc.).

13. Now that the postwar emergency is past, these official movements find their main justification in the need to establish a basis on which private savings (local) and private investment (foreign) can develop.

The International Bank

14. IBRD is somewhere between purely private and official operations. It attracts savings in creditor countries on basis of creditor government guarantee, and directs their use to countries considered too risky by private investors but considered "reasonable risk" by International Bank. The IBRD's view of risks is predicated on a certain number of assumptions, including the idea that international capital movements will continue and that prospects for world equilibrium are hopeful. Its operations are directed to those fields which are not normally likely to offer attractions to the direct private investor, e.g., ports, harbours, communications, irrigation, etc. etc.

Conditions for Continuance of International Movements of Capital

15. The main condition is that some kind of equilibrium be established in world payments. Since main supplier of capital is the United States, the future policy of the U. S. with regard to international payments is an overriding consideration. This is why the Bank has a direct interest in the liberalisation of trade policies of the U. S. It is essential that foreign countries should be able to earn dollars from trade rather than through aid. Aid is dependent on

annual decisions; trade establishes itself and develops as soon as opportunities are available.

16. But U. S. action is not enough. The much abused word "climate" has a lot of substance. The recipient countries desirous to attract foreign investment have their responsibilities also. They must convince investors (including the Bank) that their internal, as well as their external, financial policies do not run counter to a return to equilibrium in their external payments position. They must provide encouragement to foreign investors that they will be immune from arbitrary restraints or expropriations. They must encourage their own nationals to save and invest since foreign investment will never be more than a marginal fraction of the needs.

17. We are close to the time where capital movements will no more be mainly devoted to meeting emergencies and where, therefore, <u>induced</u> private transfers and <u>directed</u> semi-official transfers (IBRD) will fulfill their respective roles. Together, they ought to perform two functions, (1) make their contribution to the maintenance of equilibrium, and (2) make their contribution to developing the economies of the capital-short countries by transfer of resources from the surplus to the deficit countries. The circle would, thus, be closed: capital movements would help equilibrium; equilibrium would foster capital movements.

August 10, 1953.

Baron Rene Boel
President
European League for Economic Cooperation
7, rue des Petits Carmes
Brussels, Belgium

Dear Baron Boel,

I thank you for your kind letter of October 16, 1952 concerning the conference which your European League for Economic Cooperation will hold in January 1953.

The subject is one of concern to us and I am grateful to you for giving us an opportunity to follow your debates. I am glad, therefore, to avail myself of your offer and would like our Paris representative, Mr. Walter Hill, (67, rue de Lille, Paris) to act as observer at your conference.

I am at the same time informing Mr. Hill that he may receive a personal invitation from you. Both Mr. Hill and I will be interested in receiving the preliminary report when ready.

Sincerely yours,

Eugene R. Black

Mr. Eugene R. Black November 4, 1952

Leonard B. Rist

Attached letter of Baron Boel.-

The European League for Economic Cooperation is, according to Professor Harrod, now "adviser" to the IMF, a purely private, enlightened and lively group of businessmen, mainly bankers, statesmen and University professors. Since 1949 they have endeavored to contribute concrete suggestions towards the solution of a number of European economic and financial problems. Their meetings are always very short, which precludes lengthy speeches, and they are supposed to end up with agreed programs not resolutions. In short, the atmosphere is similar to that of C.E.D.

One of their prides is that they had, a month or two before EPU was adopted in Paris, proposed a similar solution.

The subject to be discussed in January in Brussels is not one which would carry unanimity as easily as EPU. It clearly includes such controversial issues as "Federal Reserve Bank" for continental Europe, role of sterling in Europe, discrimination or non-discrimination versus the dollar, and institutional problems related thereto. All issues in which the IMF is incidentally more directly interested than the Bank.

Since the group is good and the subject a rather dangerous one, I suggest that you accept the invitation and ask one person to attend as observer in his personal capacity rather than as representative of the IBRD.

att.

Mr. Eugene R. Black October 8, 1952

Leonard B. Rist

Peruvian Sterling Bonds.-

1. The attached memorandum concludes as follows:

   a) The German and Japanese debt settlements have established a precedent which could easily apply to the Peruvian debt.

   b) According to this precedent the Peruvian sterling bonds ought to be revalorized.

   c) Assuming the service charges are based on the plan already agreed in London, which is the same as the one agreed with the American Council, the difference in service charges arising from such a revalorization would amount to a total of less than $200,000 a year during the first 15 years and would decline thereafter. Furthermore, an additional payment of around $425,000 would probably have to be made once and for all on account of interest arrears 1947-1952.

   d) The German and Japanese settlements do not provide any useful guidance on the question whether service monies should be made available to the U.K. in sterling or in dollars.

2. It would certainly be most useful if you could impress upon the Peruvians the necessity for reaching a settlement with the British as sonn as possible. While we can see no reason for not following the precedents of the German and the Japanese cases, to say so to the Peruvians would be tantamount to espousing the British position. We are inclined, therefore, to feel that the British and the Peruvians should be given an opportunity to resolve the question through negotiations. There is no reason to believe that they will not be able to do so.

3. Aside from the "currency option" issue, there would be great difficulties involved in adopting any other service plan than the one already agreed with the British in November 1951. The Peruvians could not offer the British better terms than those given the Americans without running up against the "most favoured nation" provision in the 1947 offer. Conversely, if they offered the British less favorable terms, they would appear as wanting to renegotiate what has already been agreed last year, a position that they might wish to take but that the Bank could not properly encourage them to take.

4. This memorandum and the attached were discussed with the Legal Department and sith the Department of Operations - Western Hemisphere.

att.

October 7, 1952.

PERUVIAN STERLING BONDS

1. Two sterling issues of the Peruvian Government are still in default in London, pending a settlement. They are:

Republic of Peru National Loan. External Sinking Fund 6% 1928-1961 of which £1,839,000 principal amount are outstanding;

City of Lima 5% sterling loan 1911-1965 - guaranteed by the Republic, of which £417,000 principal amount are outstanding.

2. In November 1951, after the settlement with the U. S. Council of Bondholders had been negotiated, the Peruvian Government offered the sterling bondholders the same terms that they had offered to the dollar bondholders, namely, interest at the rate of 3% from January 1, 1953 on; cumulative Sinking Fund at the rate of ½% per annum; last maturity date 1997, settlement of arrears by scrips amounting to 10% of the arrears and redeemable over 15 years. This offer was acceptable to the sterling bondholders' representatives.

3. The Peruvian Government also offered to pay in dollars but at a conversion rate of $2.80 to the pound. The sterling bondholders' representative insisted on the full contractual rate, i.e.

for Republic of Peru - the rate of $4.8665 per pound

for City of Lima - the rate of $4.80 per pound

4. In respect to this difference of view, the agreement recently reached with the British bondholders by the German and Japanese governments may serve as a precedent. In both cases "currency options" have been substantially upheld. The report of the conference on German External Debts (August 8, 1952) contains the following recommendation:

" 28. Some loan contracts contain a currency option, i.e., at the option of the creditor, payment may be required in some currency other than the currency of the country in which the loan was issued.

Some other contracts may contain similar provisions. This matter is to be discussed further by the Governments concerned with a view to reaching full agreement before the conclusion of the Intergovernmental Agreement.

Without prejudice to any agreement which may thus be reached as to the currency in which payment is to be made, currency options should, in those cases where the contract provides for payment of a fixed amount of the alternative currency, be considered valid as exchange guarantees; e.g., any creditor holding a loan contract containing such a currency option shall be entitled to receive in the currency of the country in which the loan was issued the equivalent, at the rate of exchange current on the date payment falls due, of the amount of the alternative currency which would have been payable if the option had been exercised. "

The Memorandum of Agreement of September 26, 1952, between the Japanese Government and the British bondholders' representative contains under Article 9 substantially the same clause.

5. As a result of these agreements the following sterling bonds will, in effect, be revalorized as follows:

	per £100
City of Munich 6% 1928 payable in sterling or in dollars at the rate of £1 = $4.86	£ 173.57
Young loan 5½% 1930 payable in currency of issue at gold parity or at the equivalent thereof in other markets 1/ assuming conversion at $4.86	173.57
Japanese Government conversion 5½% 1930 payable in sterling in London and in dollars in New York at the rate of £1 = $4.8665	173.80

6. According to the Press, the representative of the Foreign Bondholders Protective Council of New York who had originally criticized this "valorization" in the German Debt Conference, on the basis that it implied "discrimination" in favor of the British bondholders, did not maintain his objection.

1/ This was treated at the London Conference as a "currency option" clause. The exact rate of conversion is not available in Washington.

7. There does not appear to be any reason why the holders of the Peruvian bonds mentioned above should not be treated in the same manner as the holders of German or Japanese bonds which included "currency options". The practical results would be as follows:

a) The principal amount of each sterling bond would be revalorized as follows -

Bond	Conversion Rate	per £100
Peru 6's	£1 = $4.8665	173.80
Lima 5's	£1 = $4.80	171.43

b) The aggregate annual service on both issues - on the same terms as those given to the U. S. bondholders - would amount to the equivalent of $383,000 as against $221,000 - if the conversion were made at $2.80 per pound, a difference of $162,000 per year.

c) As to the scrips representing arrears of interest up to 1946 inclusive, they would presumably have to be expressed in revalorized pounds rather than in pounds at the current rate. As a result, their aggregate amount would be around the equivalent of $1,052,000 - instead of around $606,000 - without revalorization, a difference of some $444,000 in principal which spread over 15 years does not exceed $30,000 a year

d) The interest accrued from 1947 to 1952 inclusive - still if settled at the rates applying to the U. S. bondholders - would represent a single cash disbursement equivalent to $985,000 as against $568,000 if no revalorization had taken place, a difference of $417,000, once and for all.

e) Finally, a few bondholders had accepted the 1947 offer and received so-called 1947 E bonds expressed in dollars. Some readjustment would have to be made in their favor. Assuming that all these bonds have been converted at the rate of £1 = $4 (as provided by the original 1947 offer), the additional service payment arising from the revalorization would amount to the equivalent of $ 4,000 /maximum per year for both issues, and a lump sum payment on account of 1947-1952 interest payments would have to be made amounting to the equivalent of $ 10,000 /maximum.

8. It should perhaps be mentioned that in both the German and the Japanese cases, the question arose whether the debtor government would pay the service in sterling in London or in actual dollars in New York. As is apparent from the quotation in paragraph 4 above, this point was not negotiated during the dis-

cussions with the bondholders which should not be affected by its ultimate solution. It is a government matter which will be taken up in direct negotiations between the Treasuries concerned. The Peruvian negotiators had offered in November 1951 to pay in dollars, but at the rate of \$2.80. The information at hand on the present negotiations between the U. K. Treasury and the German and Japanese Treasuries does not provide any indication which could serve as a precedent in the case of revalorisation of Peruvian sterling bonds.

Messrs. Lars Bengston, Franz Oppenheimer
Orvis Schmidt, Harold Larsen, James Lynch

October 8, 1952

Leonard B. RIst

Peruvian Sterling Bonds.-

Herewith please find copy of the agrwed version of the covering memorandum concerning the Peruvian Sterling Bonds. You already have the attachment.

1 encl.

Messrs. Lars Bengston - Franz Oppenheimer
Orvis Schmidt, Harold Larsen, James Lynch

October 7, 1952

Leonard B. Rist

Peruvian Sterling Bonds.

I have prepared the attached memoranda at Mr. Black's request. Although some changes may have to be made in the figures, they will not substantially change the picture.

I would appreciate your comments at the earliest possible time in order that Mr. Black may have an agreed memorandum when he returns to the Bank early Thursday morning.

I suggest that we all meet in my office tomorrow, Wednesday October 8, at 12 noon.

att.

Mr. Eugene R. Black

October 8, 1952

Leonard B. Rist

Mr. August Maffrey.-

Mr. Maffrey told me today that Mr. Andrews, head of TCA, has asked him whether he would be available to make a new study of the problem of developing American private foreign investment. The general idea is that this question will be in the foreground as soon as a new administration is established in Washington and that an up-to-date report on the subject would be very much needed in January or February.

Mr. Maffrey has not yet accepted, but he is seriously considering the proposal. He has made it clear that if he did accept he would want to make it a one-man's report and while consulting each department or agency who may be interested or connected with the subject, he would not want his report to be the work of a committee.

He asked whether he could expect some cooperation from the part of the International Bank and asked that you be informed of this request. I assured him that, on my part, I would do all I could to be of assistance to him, but I am sure you will wish to give him personally the same assurance on behalf of the Bank.

Messrs. Black and Garner September 17, 1952

Leonard B. Rist

GERMAN EXTERNAL DEBT
CLAIMS AGAINST BRAZIL

1. We are engaged in a study of the German External Debt with the immediate purpose of arriving at an estimate of service charges to be made by the Federal Republic in the various currencies. Such a study is needed in order to assess Germany's creditworthiness; it will not only be useful to the Bank but possibly to a number of other institutions as well.

2. Part of the information required for this study is not available in this country. I therefore propose that we take advantage of Mr. deBeaufort's home leave, scheduled to begin at the end of September, and request him to obtain the necessary information in Europe. The first possible source would be the Tripartite Commission on German External Debts at London, but probably some of the information will only be available in Bonn or Frankfurt.

3. While in Europe Mr. deBeaufort might also call on the bondholders' councils and check on the discussions at Paris between the Brazilians and representatives of the Port of Para Co., the Sao Paulo Rio Grande Co. and other claimants. You will recall that the French told us at Mexico that they are greatly concerned about recent developments in this matter. It might help if Mr. deBeaufort would call on Mr. Boucas and the other delegates, reminding them that the Bank continues to be interested in prompt and fair settlements.

4. Please indicate whether you approve my proposal that Mr. deBeaufort be instructed to combine his home leave with:

   a) a search in London and possibly Bonn and Frankfurt for information on the German External debt,

   b) checking at Paris on progress in the discussions between the Brazilians and their claimants,

   c) while in London and Paris calling on the bondholders' councils.

c.c. - Mr. Iliff

CdeB/jb

TABLE OF LEVEL ANNUAL PAYMENT OF PRINCIPAL AND INTEREST (PAYABLE SEMI-ANNUALLY) REQUIRED TO AMORTIZE A LOAN OF $1,000,000 IN FROM 5 to 25 YEARS AND AT RATES FROM 3 1/2% to 5%

(In thousands of dollars)

Number of years required to amortize loan	Required annual payment of interest and amortization (payable semi-annually) on loan of $1,000,000 at annual interest rate of:												
	3 1/2%	3 5/8%	3 3/4%	3 7/8%	4%	4 1/8%	4 1/4%	4 3/8%	4 1/2%	4 5/8%	4 3/4%	4 7/8%	5%
5	219.8	220.5	221.2	221.9	222.7	223.4	224.1	224.8	225.6	226.3	227.0	227.8	228.5
6	186.2	186.9	187.7	188.4	189.1	189.8	190.6	191.3	192.0	192.8	193.5	194.2	195.0
7	162.3	163.0	163.8	164.5	165.2	165.9	166.7	167.4	168.1	168.9	169.6	170.3	171.1
8	144.4	145.1	145.8	146.6	147.3	148.0	148.8	149.5	150.2	151.0	151.7	152.5	153.2
9	130.5	131.2	131.9	132.7	133.4	134.1	134.9	135.6	136.4	137.1	137.8	138.6	139.3
10	119.4	120.1	120.8	121.6	122.3	123.1	123.8	124.5	125.3	126.0	126.8	127.5	128.3
11	110.3	111.0	111.8	112.5	113.3	114.0	114.8	115.5	116.3	117.0	117.8	118.5	119.3
12	102.8	103.5	104.3	105.0	105.7	106.5	107.2	108.0	108.8	109.5	110.3	111.1	111.8
13	96.4	97.2	97.9	98.6	99.4	100.2	100.9	101.7	102.4	103.2	104.0	104.8	105.5
14	91.0	91.7	92.5	93.2	94.0	94.7	95.5	96.3	97.1	97.8	98.6	99.4	100.2
15	86.3	87.0	87.8	88.5	89.3	90.1	90.8	91.6	92.4	93.1	94.0	94.8	95.6
16	82.2	82.9	83.7	84.5	85.2	86.0	86.8	87.6	88.3	89.1	89.9	90.7	91.5
17	78.5	79.3	80.1	80.9	81.6	82.4	83.2	84.0	84.8	85.6	86.4	87.2	88.0
18	75.4	76.1	76.9	77.7	78.5	79.3	80.0	80.8	81.7	82.5	83.3	84.1	84.9
19	72.5	73.2	74.1	74.9	75.6	76.4	77.2	78.0	78.9	79.7	80.5	81.3	82.1
20	69.9	70.7	71.5	72.3	73.1	73.9	74.7	75.5	76.4	77.2	78.0	78.8	79.7
21	67.6	68.4	69.2	70.0	70.8	71.6	72.5	73.3	74.1	74.9	75.8	76.6	77.5
22	65.6	66.4	67.2	68.0	68.8	69.6	70.4	71.2	72.1	72.9	73.8	74.6	75.5
23	63.7	64.5	65.3	66.1	66.9	67.7	68.6	69.4	70.2	71.1	71.9	72.8	73.6
24	61.9	62.7	63.6	64.4	65.2	66.0	66.9	67.7	68.6	69.4	70.3	71.1	72.0
25	60.3	61.2	62.0	62.8	63.6	64.5	65.3	66.2	67.0	67.9	68.8	69.6	70.5

IBRD - Statistics Section
February 21, 1951

For JAMontealegre/eod
July 5, 1951
Recopied: September 17, 1951

MEMORANDUM CONCERNING RELEASE OF EUROPEAN 18% CURRENCIES FOR INTRA-EUROPEAN INVESTMENT

1. The International Bank has expressed its willingness to lend dollars to its European member countries for meritorious projects up to the limit of their dollar creditworthiness. (European member countries are defined, for purposes of this memorandum, as countries which are members both of the Bank and of the European Payments Union, together with the dependent overseas territories of such countries). The dollar creditworthiness of most European member countries, however, is smaller than their requirements of external capital for investment purposes. Accordingly, it would be advantageous for those countries if the Bank's resources of non-dollar capital could be augmented so as to enable it to supplement its dollar lending with non-dollar lending in support of intra-European investment projects. This memorandum sets forth a proposal designed to achieve this objective.

2. It is proposed that each European member country release for use in Bank lending 20% of that portion of its subscription to the Bank's capital which is payable in its own local currency, subject to the following conditions:

(a) The currency released would be used only in connection with Bank loans to other European member countries.

(b) The currency released would be freely convertible into the currency of any other European member country, but would not be convertible into other currencies without consent of the releasing country.

(c) Not more than one-half (one-third?) of the currency released would be disbursed in any one year.

[and in conformity with the precedent,] ~~and on previous uses of 18% subscriptions~~

(d) As a ~~matter of~~ practice, it would be understood that the Bank [illegible]

would not convert into other currencies, without ~~the consent of~~ consultation with the releasing country, interest and commission payments on loans made with the currency released.

In all other respects, the release would be unconditional.

3. The amount of its own currency to be released under this proposal by each European member country, expressed in million dollars equivalent, would be as follows (rounded to the nearest $100,000)

Austria	1.8
Belgium	8.1
Denmark	2.4
France	18.9
Germany	11.9
Greece	0.9
Iceland	-x
Italy	6.5
Netherlands	9.9
Norway	1.8
Sweden	3.6
Turkey	1.5
United Kingdom	46.8
	114.1 *

x less than 0.1

* ~~Totals do not match because of rounding.~~

4. The Bank would open a special account for the currencies released under this proposal. The Bank might operate this account either by itself or perhaps under an agency agreement with an European institution such as the Bank for International Settlements. Loans for intra-European investment projects, to the extent that they ~~could~~ would preferably not be financed out of the Bank's dollar resources, would be financed out of the special account. The borrower would be provided with either a proportionate amount of all the currencies in the account, or with the particular European currency or currencies required by it, which would be acquired by the Bank by use of a proportionate amount of all the currencies in the account. The obligation of the borrower would, in either event, be expressed in terms of all the currencies in the amounts in which they were either provided to the borrower directly, or were utilized by the Bank to acquire other European currencies furnished to the borrower.

5. The principal advantages foreseen from the adoption of this proposal are these:

(a) The investment resources of many of the participating countries would be augmented through additional non-dollar loans from the Bank. This might, in a number of cases, also increase their creditworthiness in dollars.

(b) The increase in Bank loans should serve to stimulate trade among the various participating countries, particularly in connection with the purchase of capital equipment.

(c) A further step would have been taken, supplementary to the European Payments Union, towards the free convertibility of European currencies within the E.P.U. area.

a. Each releasing country would be expected to facilitate conversion into its own currency of the currencies of other European member countries to the extent necessary to enable such other countries to service loans made out of a special fund.

b. All European member countries would be expected to facilitate conversion of the currency of countries borrowing from the special fund into the currencies of other European countries to the extent necessary to enable the borrowing countries to service their loans.

a. Each releasing country would be expected to facilitate conversion into its own currency of the currencies of other European member countries to the extent necessary to enable such other countries to service loans made out of a special fund.

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MEMORANDUM CONCERNING RELEASE OF EUROPEAN 18% CURRENCIES

FOR INTRA-EUROPEAN INVESTMENT

1. The International Bank has expressed its willingness to lend dollars to its European member countries for meritorious projects up to the limit of their dollar creditworthiness. (European member countries are defined, for purposes of this memorandum, as countries which are members both of the Bank and of the European Payments Union, together with the dependent overseas territories of such countries.) The dollar creditworthiness of most European member countries, however, is smaller than their requirements of external capital for investment purposes. Accordingly, it would be advantageous for those countries if the Bank's resources of nondollar capital could be augmented so as to enable it to supplement its dollar lending with nondollar lending in support of intra-European projects. This memorandum sets forth a proposal designed to achieve this objective.

2. It is proposed that each European member country release for use in Bank lending 20% of that portion of its subscription to the Bank's capital which is payable in its own local currency, subject to the following conditions:

(a) The currency released would be used only in connection with Bank loans to European member countries.

(b) The currency released would be freely convertible into the currency of any European member country, ~~but would not be~~ convertible into other currencies without consent of the releasing country. The same would apply to the acquisition of the currencies ~~proceeds~~ of repayment of principal and interest payments

(c) Not more than ~~one-half~~ (one-third?) of the currency released would be disbursed in any one year.

(d) Consistent with its normal practice, it would be understood that the Bank would not convert into other currencies, without consultation with the releasing country, interest and commission payments on loans made with the currency released.

In all other respects, the release would be unconditional.

3. The amount of its own currency to be released under this proposal by each European member country, expressed in million dollars equivalent, would be as follows, rounded to the nearest hundred thousandth:

Austria	1.8
Belgium	8.1
Denmark	2.4
France	18.9
Germany	11.9
Greece	0.9
Iceland	- *
Italy	6.5
Netherlands	9.9
Norway	1.8
Sweden	3.6
Turkey	1.5
United Kingdom	46.8
	114.1

* Less than 0.1

4. The Bank would open a special account for the currencies released under this proposal. The Bank might operate this account either by itself or perhaps under an agency agreement with a European institution such as the Bank for International Settlements. Loans for intra-European investment projects, to the extent that they could not be financed out of the Bank's dollar resources, would be financed out of these special ~~account~~ releases. The borrower would be provided as far as practicable with ~~either~~ a proportionate amount of ~~all~~ the currencies in the account, or with the particular European currency or currencies required by it, which would be acquired by the Bank by use of a proportionate amount of all the currencies in the account. The obligation of the borrower would, in either event, be expressed in terms of all the currencies in the amounts in

which they were either provided to the borrower directly, or were utilized by the Bank to acquire other European currencies furnished to the borrower.

5. The principal advantages foreseen from the adoption of this proposal are these:

(a) The investment resources of many of the participating countries would be augmented through additional nondollar loans from the Bank. This might, in a number of cases, also increase their creditworthiness in dollars.

(b) The increase in Bank loans should serve to stimulate trade among the various participating countries, particularly in connection with the purchase of capital equipment.

(c) A further step would have been taken, supplementary to the European Payments Union, towards the free convertibility of European currencies within the E.P.U. area.

Mr. Rist

MEMORANDUM CONCERNING RELEASE OF EUROPEAN 18% CURRENCIES

FOR INTRA-EUROPEAN INVESTMENT

1. The International Bank has expressed its willingness to lend dollars to its European member countries for meritorious projects up to the limit of their dollar creditworthiness. (European member countries are defined, for purposes of this memorandum, as countries which are members both of the Bank and of the European Payments Union, together with the dependent overseas territories of such countries). The dollar creditworthiness of most European member countries, however, is smaller than their requirements of external capital for investment purposes. Accordingly, it would be advantageous for those countries if the Bank's resources of non-dollar capital could be augmented so as to enable it to supplement its dollar lending with non-dollar lending in support of intra-European investment projects. This memorandum sets forth a proposal designed to achieve this objective.

2. It is proposed that each European member country release for use in Bank lending 20% of that portion of its subscription to the Bank's capital which is payable in its own local currency, subject to the following conditions:

(a) The currency released would be used only in connection with Bank loans to ~~other~~ European member countries.

(b) The currency released would be freely convertible into the currency of any ~~other~~ European member country, but would not be convertible into other currencies without consent of the releasing country.

(c) Not more than one-half (one-third?) of the currency released would be disbursed in any one year.

(d) As a matter of practice, it would be understood that the Bank would not convert into other currencies, without the consent of the releasing country, interest and commission payments on loans made with the currency released.

In all other respects, the release would be unconditional.

3. The amount of its own currency to be released under this proposal by each European member country, expressed in million dollars equivalent, would be as follows:

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Greece	0.9
Iceland	-
Italy	6.5
Netherlands	9.9
Norway	1.8
Sweden	3.6
Turkey	1.5
United Kingdom	46.8
	114.1 *

* Totals do not match because of rounding.

4. The Bank would open a special account for the currencies released under this proposal. The Bank might operate this account either by itself or perhaps under an agency agreement with an European institution such as the Bank for International Settlements. Loans for intra-European investment projects, to the extent that they could not be financed out of the Bank's dollar resources, would be financed out of the special account. The borrower would be provided with either a proportionate amount of all the currencies in the account, or with the particular European currency or currencies required by it, which would be acquired by the Bank by use of a proportionate amount of all the currencies in the account. The obligation of the borrower would, in either event, be expressed in terms of all the currencies in the amounts in which they were either provided to the borrower directly, or were utilized by the Bank to acquire other European currencies furnished to the borrower.

5. The principal advantages foreseen from the adoption of this proposal are these:

(a) The investment resources of many of the participating countries would be augmented through additional non-dollar loans from the Bank. This might, in a number of cases, also increase their creditworthiness in dollars.

(b) The increase in Bank loans should serve to stimulate trade among the various participating countries, particularly in connection with the purchase of capital equipment.

(c) A further step would have been taken, supplementary to the European Payments Union, towards the free convertibility of European currencies within the E.P.U. area.

D[illegible]ft of
December 24, 1952

UNITED STATES-INTERNATIONAL BANK RELATIONS

The International Bank was originally conceived by, and organized under the leadership of the United States; support of the Bank has ever since been an integral part of United States foreign economic policy. As a major source of loan funds for international investment, the Bank's operations are obviously closely related to the policies and activities of United States agencies concerned with foreign economic aid.

The purpose of this memorandum is to describe briefly the nature of the Bank and its operations, to explain the relationships between the Bank and United States programs in the foreign economic field as they have developed over the years, and to set forth some policy problems affecting the Bank which remain to be resolved.

I. Organization and Operations of the International Bank

The Articles of Agreement of the Bank were drafted at Bretton Woods in July 1944, and the Bank actually commenced operations in June 1946. Under the Articles the Bank operates as an autonomous intergovernmental corporation, with all of the capital stock held by its 54 member governments. The subscribed capital amounts to the equivalent of slightly more than $9 billion, of which the equivalent of $1.8 billion has been paid in. The United States has subscribed to capital shares aggregating $3,175 million, or slightly more than 35% of the total subscribed capital, and it has paid in $635 million on its subscription.

All policy decisions of the Bank are made by a Board of 16 Executive Directors, each of whom represents one or more of the stockholding governments; the voting power of each Director is roughly proportional to the amount of stock held by the government or governments he represents. The Executive Directors function much like the Board of Directors of any private corporation. Subject to the policy decisions of the Board, actual conduct of the Bank's operations is the responsibility of the President and an international staff appointed by him.

Since the start of operations, the Bank has made 75 loans aggregating about $1.5 billion. These loans were made to help finance more than 250 projects in 28 countries, the projects consisting primarily of the construction or extension of such basic productive facilities as electric power, transportation, irrigation and flood control. The Bank's charter requires that all loans must be either to a member government or one of its agencies, or else must be guaranteed by the government or central bank of the country in which the project is located.

All payments of principal and interest have been received from borrowers as due. The Bank has accumulated reserves of around $93 million and its net income is now running at the rate of $20 million a year.

Most of the Bank's lending has been in United States dollars, but particularly in the last two years a number of other currencies have become available for lending. In addition to United States dollars, the Bank has lent the currencies of Belgium, Canada, Denmark, France, Germany, Italy, the Netherlands, Norway, South Africa, Sweden, Switzerland and the United Kingdom. The Bank's loan funds are derived primarily from two sources - payments on capital subscriptions to the Bank,* and the sale of the Bank's own obligations

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*Under the Bank's charter, each member government pays 2% of its subscription in gold and dollars, which is freely available for lending. It must also put up an additional 18% of its subscription in its own local currency, which is available for lending only with its consent. The remaining 80% of each member's subscription is not available for lending but is subject to call, if and as needed, to meet the Bank's own obligations.

to private investors. The Bank has issued its bonds in the United States, British, Canadian and Swiss markets; the total amount of the Bank's securities now outstanding is the equivalent of $567.5 million. The Bank also replenishes its funds through the sale to investors, both in the United States and other countries, of securities it receives from its borrowers in connection with loans; some of these portfolio sales have been made with the Bank's guarantee and some without.

At the end of the fiscal year ended June 30, 1952, the funds disbursed by the Bank or immediately available for disbursement amounted to the equivalent of nearly $1.5 billion. Of this, the equivalent of $375 million - or about 25% - was received from, or borrowed in, member countries outside the United States.

In addition to lending operations, the Bank has provided a substantial amount of technical assistance to member countries at their request. These activities have concentrated largely on the problems of development programming and the mobilization of local capital.

II. Relations with U. S. Foreign Economic Agencies

(a) The Export-Import Bank

In the immediate postwar years, reconstruction of Europe was the first concern of the International Bank. It shortly became apparent, however, that the magnitude of the task was far beyond the scope of the Bank's resources. With the launching of the Marshall plan, the Bank's lending for post-war reconstruction purposes ceased and it has since devoted its attention to development financing.

During the period while the International Bank was being organized and getting into operation, the Export-Import Bank (Eximbank), in response to calls from a number of underdeveloped countries, entered the field of development financing. As the International Bank's operations grew, and in the absence of any clear delineation of the respective roles of the International Bank and the Eximbank, conflicts inevitably occurred. Some of the underdeveloped countries tried to play the two institutions off against each other and thus to undermine the influence of each. Moreover, the International Bank was concerned that any lending program which it might pursue in any particular country, based on its assessment of that country's debt servicing capacity, might be upset by subsequent loans by the Eximbank, perhaps motivated by other than strictly economic considerations.

In discussions which took place early in 1951 between the United States and International Bank officials on this matter, the United States reaffirmed that it regarded the International Bank as the primary source of development financing. The International Bank management suggested that, in order to assure implementation of this principle, the United States should agree that all requests for development loans from members of the International Bank should, except in special circumstances, be first considered by the International Bank. Under the heading "special circumstances" would fall (1) cases in which Eximbank lending was recognized by all concerned as more appropriate than International Bank lending, as, for example, financing the completion of projects initially financed by the Eximbank, or financing a project outside the scope of the International Bank's powers, and (2) loans which the United States, because of exceptionally urgent political interests, might feel compelled to grant itself. The Bank's management further suggested that, in any case of the latter type, the United States should recognize a responsibility to carry out the transaction in a way which would not impair any development program the Bank was financing or the financial basis on which it rested.

Although there was no formal acceptance of this proposal by the United States, it represents, with some exceptions, the general pattern that has since been followed in specific situations as they have arisen. The management of the International Bank would welcome assurance by the new administration that it is in agreement not only with the principle that the Bank is regarded as the primary source for development loans, but also with the procedure for implementing that principle suggested above.

The new administration may also wish to reconsider the implications of Eximbank lending to non-members of the International Bank, such as Argentina, Israel, Spain, Portugal and New Zealand, to the extent that such lending places a premium on non-membership in the Bank and in the International Monetary Fund.

(b) MSA and TCA

While much of the activity to date of MSA and TCA has been outside the scope of the Bank's operations, both agencies are engaged in financing development projects in some underdeveloped countries in which the Bank is also operating. Coordination of MSA and TCA development financing with Bank financing is clearly necessary, not only to avoid the possibility of working at inconsistent or cross purposes, but also to assure that aid from both Bank and United States sources is used with real effectiveness.

This is particularly true in the many countries where the greatest development need is not external capital, but domestic action, whether in connection with the amount or direction of public investment, the determination of fiscal policy, the adoption of administrative reforms, or other similar matters. In such countries, external aid is apt to be of most effect if it is used as an inducement to secure adoption of the necessary local measures; it is therefore important that all external aid to such countries be conditioned on the same standards of domestic performance.

To date, no specific criteria have been established to differentiate the development role of TCA or MSA, on the one hand, and the Bank on the other, nor has any formal mechanism been created to secure coordination. Nevertheless, it has been possible in most cases for the Bank and MSA or TCA to reach agreement on the general objectives to which economic assistance in a particular country should be directed, and to work out a satisfactory division of projects within that broad program. It must be recognized, however, that up to now the development financing done by MSA and TCA in most underdeveloped member countries of the Bank has been limited in amount. If substantially greater funds should be made available for development investment by the United States, the question discussed below of the relative desirability of international as against national administration of such aid would be sharply raised. To the extent that the administration remained national, the need for coordination would be greatly intensified and at the same time, the task of achieving it would become more difficult.

III. The International Finance Corporation

In April 1951, in its report, Partners in Progress, the U. S. International Development Advisory Board under the chairmanship of Mr. Nelson Rockefeller proposed, after consultation with the Bank's management, establishment of an International Finance Corporation (IFC) to be organized as an affiliate of the International Bank. The objective of IFC would be to promote development of the private sector of the economies of underdeveloped countries through making equity investments in, and loans without government guaranty to, private productive undertakings - functions which the International Bank does not and, under its charter, cannot appropriately perform. The IFC would be a financing, not a management, agency; as a matter of policy, it would not acquire a controlling equity interest in the undertakings in which it invested, nor would it undertake other management functions.

The capital of the IFC would be provided by its member governments. The Rockefeller report suggested that the authorized capital of the IFC should be $400 million, and that the U. S. subscription should be $150 million. It suggested further that only one third of the capital should be initially paid in, the remainder being subject to call as needed.

Since the proposal for an IFC was first made, interest in it has grown steadily. In a preliminary report on the matter to the UN Economic and Social Council last April, a copy of which is attached to this memorandum, the Bank's management outlined the main reasons for believing that the IFC would be able to give a substantial stimulus to private international investment.

In discussions of the report at the Bank's recent annual meeting and at meetings of various United Nations organs,
virtually all the underdeveloped countries and some of the more developed countries strongly endorsed the proposal. The Economic and Social Council has requested the Bank to explore the matter further and to report at the Council's next meeting on the results of its consultations with member

governments and the action proposed to be taken.

As yet, the United States has taken no final decision on the proposal; in public debate, the United States position has been that further study and investigation are required before any decision can be made. This position has been dictated primarily by the sharp divergence of views which has existed within the government, as well as within the U. S. investment community, on the proposal. Opponents of IFC, centering on the equity investment feature, have urged that it is wrong in principle to use public monies to share in the risks of ~~support~~ private undertakings. Proponents of IFC, on the other hand, have pointed to the undoubted advantages of an increase in private international investment and have stated their view that IFC would succeed in stimulating such an increase. Since United States participation is essential to the successful organization and operation of the proposed IFC, the Bank has held off any further action with regard to the proposal pending an opportunity to consult with the new administration.

The management of the Bank regards an early decision on the proposal as a matter of some urgency. Unless some way is found to attract additional private capital into the less advanced countries, the governments of those countries will find it increasingly necessary to establish and operate productive enterprises themselves. In view of the support the proposal has generated among the underdeveloped countries, the IFC might offer one means of reversing this trend. Although the reaction of representatives of business and investment communities is mixed, such investigation as the Bank has been able to conduct has led the Bank's management to believe that IFC would be sufficiently attractive to private investors to warrant its establishment. The management hopes, therefore, that it will have an opportunity in the near future to review the matter in detail with the appropriate

United States officials.

IV. Other Policy Questions

Recurrently during the past few years, almost always when U. S. foreign aid programs were under executive or congressional review, two questions have been raised which are of vital importance to the Bank. The first has been whether additional aid, instead of being in the form of grants, should be in the form of long-term, low-interest rate loans, as a means of possibly realizing for the United States some eventual return on the aid provided. The second has been whether international or national channels should be utilized in carrying out various phases of U. S. foreign economic policy. The management of the Bank has, on a number of occasions, stated its view on each of these questions.

(a) Long-Term, Low-Interest Loans

The Bank's management has expressed strong opposition to the proposal for extending aid in the form of long-term, low-interest rate loans. It has pointed out that such loans are, in essence, part loan, part grant. They have the basic disadvantage that they are not normally regarded as serious debt obligations and thus tend to impair the integrity of all international credit operations. And they accomplish nothing that cannot be equally well accomplished by a judicious combination of grants and real loans. The management of the Bank believes that development loans should be limited to serious debt transactions, on terms which have come to be regarded as appropriate for such transactions, and that any additional development financing which may be made available should be frankly labeled as grant assistance.

(b) National vs International Action

The second question is the choice by the United States government of the vehicle for carrying out such programs of economic assistance to underdeveloped countries as it may decide upon. Reference has already been made to the importance of coordination of the Bank's activities with United States development financing, whether through TCA, MSA, or the Eximbank. The problem, however, is not merely one of coordination with United States agencies, since there are other similar economic assistance programs financed by other countries. The outstanding example is the Colombo Plan for Southeast Asia, to which contributions are made by the United Kingdom, Canada, Australia and New Zealand.

Experience has demonstrated that the effectiveness of economic assistance for the development of underdeveloped areas is dependent in substantial part on the establishment of proper conditions and criteria for the granting of that assistance. Experience has also shown that it is very difficult for a national administration, subject to the stresses of political pressure, to impose and to maintain rigorous conditions.

On the other hand, there have been a number of cases in which the Bank, because of its character as an international cooperative institution, has been able to make its assistance to underdeveloped areas effective through the imposition of conditions of a type which no national government providing aid to another government could easily have imposed. Accusations of infringement of sovereignty, of "imperialistic" motives for recommending particular kinds of action, of friction between one nation and another - questions which have been very troublesome in the administration of

United States programs of economic assistance - have rarely arisen in the Bank's relations with its member countries. In Iraq, for example, the Bank has been able to require the earmarking of oil royalties for local development needs; in Yugoslavia the Bank has required a basic change in the investment program; in India it has required the hiring of foreign technicians for the operation of complex projects; in Colombia it has succeeded in bringing about a much-needed reorganization of the railroad system. These conditions have tended to become routine matters in the relations between the Bank and its member countries whereas, if similar conditions were to be imposed by the United States (or the United Kingdom) as a part of the price for assistance under Point IV or the Colombo Plan, they would call forth immediate shouts of infringement of national sovereignty. Similarly, the selection of projects to which priority should be given and the exclusion of certain projects as being economically or technically unsound are readily recognized as proper functions for the Bank. Similar action on a national level, particularly if agricultural projects are given priority over grandiose industrial projects, is often resisted as an attempt to "delay development" or "maintain colonialism".

It is certainly not true that international agencies are always to be preferred to national agencies in the administration of foreign assistance programs. There will be many cases in which national security interests and similar non-economic considerations are of paramount importance in determining the kind of program to be adopted. In such cases, only national administration can be effective. Wherever, however, the basic purpose of economic assistance is economic development, and economic rather than political criteria are to be the principal guideposts of action, the Bank's management believes that consideration should be given to the administration of the program on an international, rather than a national, basis.

The advantages of international action in this sphere motivated establishment of the International Bank in the first instance. The same advantages motivated the recommendations of the U. S. International Development Advisory Board, in its report, "Partners in Progress", that the International Bank should be asked to administer a substantial portion of the development funds which it proposed should be made available by the United States. Similar motivations underlay the recent decision of the United Kingdom Government, announced at the conclusion of the Commonwealth Conference, that it would help to finance projects designed to improve the sterling area's balance of payments through making sterling available for Bank lending for those projects.

The new United States administration may, for the same reasons, wish to consider the extent to which it could usefully channel through the International Bank whatever economic development aid it may decide to provide.

FORM No. 75 (3.52)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date December 22, 1952

NAME	ROOM NO.
Mr. Leonard Rist	1223

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

Attached is the revised draft of the memorandum on United States-International Bank Relations.

From

Frances Henderson

Draft of
December 22, 1952

UNITED STATES-INTERNATIONAL BANK RELATIONS

The International Bank was originally conceived by, and organized under the leadership of the United States; support of the Bank has ever since been an integral part of United States foreign economic policy. As a major source of loan funds for international investment, the Bank's operations are obviously closely related to the policies and activities of United States agencies concerned with foreign economic aid.

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I. Organization and Operations of the International Bank

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All policy decisions of the Bank are made by a Board of 16 Executive Directors, each of whom represents one or more of the stockholding governments; the voting power of each Director is roughly proportional to the amount of stock held by the government or governments he represents. The Executive Directors function much like the Board of Directors of any private corporation. Subject to the policy decisions of the Board, actual conduct of the Bank's operations is the responsibility of the President and an international staff appointed by him.

Since the start of operations, the Bank has made 75 loans aggregating about $1.5 billion. These loans were made to help finance more than 250 projects in 28 countries, the projects consisting primarily of the construction or extension of such basic productive facilities as electric power, transportation, irrigation and flood control. The Bank's charter requires that all loans must be either to a member government or one of its agencies, or else must be guaranteed by the government or central bank of the country in which the project is located.

All payments of principal and interest have been received from borrowers as due. The Bank has accumulated reserves of around $93 million and its net income is now running at the rate of $20 million a year.

Most of the Bank's lending has been in United States dollars, but particularly in the last two years a number of other currencies have become available for lending. In addition to United States dollars, the Bank has lent the currencies of Belgium, Canada, Denmark, France, Germany, Italy, the Netherlands, Norway, South Africa, Sweden, Switzerland and the United Kingdom. The Bank's loan funds are derived primarily from two sources - payments on capital subscriptions to the Bank,* and the sale of the Bank's own obligations

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*Under the Bank's charter, each member government pays 2% of its subscription in gold and dollars, which is freely available for lending. It must also put up an additional 18% of its subscription in its own local currency, which is available for lending only with its consent. The remaining 80% of each member's subscription is not available for lending but is subject to call, if and as needed, to meet the Bank's own obligations.

to private investors. The Bank has issued its bonds in the United States, British, Canadian and Swiss markets; the total amount of the Bank's securities now outstanding is the equivalent of $567.5 million. The Bank also replenishes its funds through the sale to investors, both in the United States and other countries, of securities it receives from its borrowers in connection with loans; some of these portfolio sales have been made with the Bank's guarantee and some without.

At the end of the fiscal year ended June 30, 1952, the funds disbursed by the Bank or immediately available for disbursement amounted to the equivalent of nearly $1.5 billion. Of this, the equivalent of $375 million - or about 25% - was received from, or borrowed in, member countries outside the United States.

In addition to lending operations, the Bank has provided a substantial amount of technical assistance to member countries at their request. These activities have concentrated largely on the problems of development programming and the mobilization of local capital.

II. Relations with U. S. Foreign Economic Agencies

(a) The Export-Import Bank

In the immediate postwar years, reconstruction of Europe was the first concern of the International Bank. It shortly became apparent, however, that the magnitude of the task was far beyond the scope of the Bank's resources. With the launching of the Marshall plan, the Bank's reconstruction lending in Europe became of minor importance and it has since devoted most of its attention to development financing.

During the period while the International Bank was being organized and getting into operation, the Export-Import Bank (Eximbank), in response to calls from a number of underdeveloped countries, entered the field of development financing. As the International Bank's operations grew, and in the absence of any clear delineation of the respective roles of the International Bank and the Eximbank, conflicts inevitably occurred. Some of the underdeveloped countries tried to play the two institutions off against each other and thus to undermine the influence of each. Moreover, the International Bank was concerned that any lending program which it might puruse in any particular country, based on its assessment of that country's debt servicing capacity, might be upset by subsequent loans by the Eximbank, perhaps motivated by other than strictly economic considerations.

In discussions which took place early in 1951 between the United States and International Bank officials on this matter, the United States reaffirmed that it regarded the International Bank as the primary source of development financing. The International Bank suggested that, in order to assure implementation of this principle, the United States should agree that all requests for development loans from members of the International Bank should, except in special circumstances, be first considered by the International Bank. Under the heading "special circumstances" would fall (1) cases in which Eximbank lending was recognized by all concerned as more appropriate than International Bank lending, as, for example, financing the completion of projects initially financed by the Eximbank, or financing a project outside the scope of the International Bank's powers, and (2) loans which the United States, because of exceptionally urgent political interests, might feel compelled to grant itself.

Although there was no formal acceptance of this proposal by the United

States, it represents, with some exceptions, the general pattern that has since been followed in specific situations as they have arisen. The International Bank would welcome assurance by the new administration that it is in agreement not only with the principle that the Bank is regarded as the primary source for development loans, but also with the procedure for implementing that principle suggested above.

(b) MSA and TCA

While much of the activity to date of MSA and TCA has been outside the scope of the Bank's operations, both agencies are engaged in financing development projects and in providing technical assistance in some underdeveloped countries in which the Bank is also operating. Coordination of these MSA and TCA activities with the Bank's loans and technical assistance is clearly necessary, not only to avoid the possibility of working at inconsistent or cross purposes, but also to assure that aid from both Bank and U. S. sources is used with real effectiveness.

This is particularly true in the many countries where the greatest development need is not external capital, but domestic action, whether in connection with the amount or direction of public investment, the determination of fiscal policy, the adoption of administrative reforms, or other similar matters. In such countries, external aid is apt to be of most effect if it is used as a carrot and stick to secure adoption of the necessary local measures; it is therefore important that all external aid to such countries be conditioned on the same standards of domestic performance.

To date, no specific criteria have been established to differentiate the development role of TCA or MSA, on the one hand, and the Bank on the other, nor has any formal mechanism been created to secure coordination.

Nevertheless, it has been possible in most cases for the Bank and MSA or TCA to reach agreement on the general objectives to which economic assistance in a particular country should be directed, and to work out a satisfactory division of projects within that broad program. It must be recognized, however, that up to now the development financing done by MSA and TCA in most underdeveloped member countries of the Bank has been limited in amount. If substantially greater amounts of financial aid are made available for development by the United States, the question discussed below of the relative desirability of international as against national administration of such aid will be sharply raised, and to the extent that the administration remains national, the need for coordination will be greatly intensified.

III. The International Finance Corporation

In April 1951, in its report, Partners in Progress, the U. S. International Development Advisory Board under the chairmanship of Mr. Nelson Rockefeller proposed, after consultation with the Bank's management, establishment of an International Finance Corporation (IFC) to be organized as an affiliate of the International Bank. The objective of IFC would be to promote development of the private sector of the economies of underdeveloped countries through making equity investments in, and loans without government guaranty to, private productive undertakings - functions which the International Bank does not and, under its charter, cannot appropriately perform.

As a matter of general policy, the IFC would not acquire a controlling equity interest in the undertakings in which it invested, nor would it undertake other management functions. Nor would any special immunities or status attach to these undertakings solely by reason of IFC participation.

Although it would be under the general policy direction of the International Bank and would utilize the administrative and technical staff of the Bank to the fullest possible extent, the IFC and the Bank would be financially separate. The capital of the IFC would be provided by its member governments. The Rockefeller report suggested that the authorized capital of the IFC should be $400 million, and that the U. S. subscription should be $150 million. It suggested further that only one third of the capital should be initially paid in, the remainder being subject to call as needed.

Since the proposal for an IFC was first made, interest in it has grown steadily. In a preliminary report on the matter to the UN Economic and Social Council last April, a copy of which is attached to this memorandum, the Bank's management outlined the main reasons for believing that the IFC would serve to stimulate private international investment. First, the IFC would provide funds to enable private investors, both domestic and foreign, to undertake promising projects which are now held back by lack of adequate capital. Second, since IFC could approach investors not merely with a promising idea but also with an offer of financial participation if a sound proposal were worked out, it should prove to be an effective instrument for bringing investment opportunities, capital and management together. Third, the participation of the IFC might be expected to encourage investors to embark on projects from which they are now deterred not so much by lack of capital as by lack of confidence. Finally, over a period of time, the activities of the IFC should help to improve the climate for private investment generally and thus encourage an increased flow of foreign capital not directly associated with it.

In discussions of the report at the Bank's recent annual meeting and at meetings of various U. N. organizations, virtually all the underdeveloped countries and some of the more developed countries strongly endorsed the proposal. The Economic and Social Council has requested the Bank to explore the matter further and to report at the Council's next meeting on the results of its consultations with member governments and the action proposed to be taken.

As yet, the United States has taken no final decision on the proposal; in public debate, the United States position has been that further study and investigation are required before any decision can be made. This position has been dictated primarily by the sharp divergence of views which has existed within the administration on the proposal. Since United States participation is essential to the successful organization and operation of the proposed IFC, the Bank has held off any further action with regard to the proposal pending an opportunity to consult with the new administration.

The Bank regards an early decision on the proposal as a matter of some urgency. The need for increased private investment abroad is undoubted. Unless some way is found to attract additional private capital into the less advanced countries, the governments of those countries will find it increasingly necessary to establish and operate productive enterprises themselves. In view of the support the proposal has generated among the underdeveloped countries, the IFC might offer one means of reversing this trend. Although the reaction of representatives of business and investment communities is mixed, in the United States especially, the IFC appears to be sufficiently attractive to private investors to warrant its establishment. The Bank hopes, therefore, that it will have an opportunity in the near future to review the matter in detail with the appropriate United States officials.

IV. Other Policy Questions

Recurrently during the past few years, almost always when U. S. foreign aid programs were under executive or congressional review, two questions have been raised which are of vital importance to the Bank. The first has been whether additional aid, instead of being in the form of grants, should be in the form of long-term, low-interest rate loans, as a means of possibly realizing for the United States some eventual return on the aid provided. The second has been whether international or national channels should be utilized in carrying out various phases of U. S. foreign economic policy. The International Bank has, on a number of occasions, stated its view on each of these questions.

(a) Long-Term, Low-Interest Loans

The Bank has expressed strong opposition to the proposal for extending aid in the form of long-term, low-interest rate loans. It has pointed out that such loans are, in essence, part loan, part grant. They have the basic disadvantage that they are not normally regarded as serious debt obligations and thus tend to impair the integrity of all international credit operations. And they accomplish nothing that cannot be equally well accomplished by a judicious combination of grants and real loans. The Bank believes that development loans should be limited to serious debt transactions, on terms which have come to be regarded as appropriate for such transactions, and that any additional development financing which may be made available should be frankly labeled as grant assistance.

(b) Bilateral vs International Action

The second question presents a basic issue as to whether the primary emphasis of United States foreign economic policy should be on national programs conducted by United States agencies or on multilateral programs conducted by international agencies. In recent years, the emphasis has been on the expansion of bilateral programs and it is important to recognize that this expansion has not been accomplished without cost to simular international programs.

In certain situations, bilateral action has clear advantages. It lends itself to the achievement of immediate political objectives. It can serve other purposes, such as military support, outside the usual scope of international agencies. And sometimes the relative operational effectiveness of national and international agencies in a particular field may dictate the use of the national agency in the interest of efficiency.

There are at least equally strong arguments, however, in favor of emphasizing the international approach, particularly in connection with development aid. First is the obvious desirability of having other nations share the responsibility and, in proportion to their resources, the risks involved in promoting development. Secondly, the channeling of aid through international agencies provides some protection to the nation or nations providing that aid against the friction and ill will that are, in some degree, an inevitable concomitant of foreign assistance. By the same token, the recipient countries normally favor international administration of aid because it mitigates real or imagined fears of political or economic exploitation. Finally, and perhaps most important, is the fact, to which reference has already been made, that foreign assistance for development is apt frequently to be wasted, or to be less than fully effective, unless conditioned on reasonable standards of performance by the recipient country in connection with such matters as investment and fiscal policy and public administration. This often means insistence on hard and politically unpopular reforms as the price of economic aid.

The Bank's experience suggests that an international agency may often be better placed to insist on domestic reforms than a national agency whose intervention may be considered political interference and an infringement on sovereignty.

Considerations of this type prompted the establishment of the Bank in the first place. In a world of rising nationalism and increasing demands upon the United States, they apply today with even greater force. This was recognized by Gordon Gray in his "Report to the President on Foreign Economic Policies", presented in 1950; it was similarly recognized, and measures for its implementation were suggested, in the Rockefeller Committee report, "Partners in Progress". And the same principle was implicit in the recent announcement by the United Kingdom Government at the conclusion of the Commonwealth Conference that it would provide sterling for development projects within the Commonwealth through the release of sterling from its capital subscription to the Bank.

Support of an international approach to development does not constitute a choice between mutually exclusive instruments. But it does involve utilization of international channels, to the extent feasible, in the implementation of foreign economic policy. The policy adopted by the United States in this regard will be of determining importance to the whole international development effort.

Proposed Redraft of IV (b), Page 9

(b) National versus International Action

The second important policy question affecting the Bank is the choice of the vehicle for carrying out such programs of economic assistance to underdeveloped countries as may be decided upon. The importance of coordination of the Bank's activities with those carried out by the U.S. Government, whether in the form of TCA, MSA, or Export-Import Bank, has already been referred to. The problem, however, is not merely one of coordination with U.S. government agencies since there is a number of programs of economic assistance to the areas in which the Bank operates, financed by other countries than the U.S. One outstanding example is the Colombo Plan for Southeast Asia, to which contributions are made by the U.K., Canada, Australia, and New Zealand.

Experience has demonstrated that the effectiveness of economic assistance for the development of underdeveloped areas is dependent in substantial part on the establishment of proper conditions and criteria for the granting of that assistance. Experience has also shown that it is very difficult for a national administration, subject to the stresses and strains of political pressure, to impose and to maintain rigorous conditions.

On the other hand, the Bank's experience has indicated a number of cases in which, because of its very character as an international cooperative institution, it has been able to make its assistance to underdeveloped areas effective through the imposition of conditions, in a manner in which programs sponsored by national governments cannot operate. Accusation of infringement of sovereignty, of "imperialistic" motives for recommending particular kinds of action, of friction between one nation and another - questions which have been very troublesome in the administration of U.S. programs of economic assistance - have very rarely arisen in the Bank's relations with its member countries. In Iraq, for example, the Bank has been able to require the earmarking of oil royalties for local development needs; in Yugoslavia the Bank has required a basic change in the investment program; in India it has required the hiring of foreign technicians for the operation of complex projects. These conditions have tended to become routine matters in the relations between the Bank and its member countries whereas, if they were to be imposed by the U.S. (or the U.K.) as part of the conditions for assistance under Point IV or the Colombo Plan, they seem to raise immediate shouts of infringement of national sovereignty. Similarly the selection of projects to which priority should be given and the exclusion of certain projects as being economically or technically unsound is readily recognized as a proper function for the Bank. Similar action, on a national level, particularly if agricultural projects rather than grandiose industrial projects are given first priority, is all too frequently objected to as attempting to "delay development" or to "maintain colonialism."

It is certainly not true that the answer to all of the problems of administration of foreign assistance programs is the utilization of international rather than national agencies. There will be many cases in which national security interests and similar non-economic considerations are of paramount importance in determining the kind of program to be adopted. In such cases, only national programs can be effective. Wherever, however, the purpose of the extension of economic assistance is the accomplishment of the more basic goal of economic development and economic rather than security criteria are to be the principal guideposts of action, consideration should be given to the possibility of administration of the program on an international rather than a national basis. For these reasons, the British Government has recently decided that a considerable amount of the economic assistance made available by it to the colonies and the Commonwealth countries will, in the future, be channelled through the International Bank. The U.S. Government may also wish to consider the extent to which international agencies can be of assistance in whatever economic aid programs it decides should be adopted.

November 24, 1952

Messrs Iliff, Demuth, Knapp, Rist
Rosen and Sommers
Frances Henderson & John H. Adler JHA

U.S. FOREIGN AID PROGRAM

In preparation for the next meeting of the Committee which will be held at 5.00 p.m. on Tuesday, November 25, in Mr. Iliff's office (Room 1002), there is attached a draft outline of briefs for Mr. Black together with a summary tabulation of U.S. foreign aid and loans of the IBRD and the Eximbank in the fiscal years 1951/52 and 1952/53.

2.1.5

Treasury Chambers
Great George Street, S.W.1

18th December, 1952.

Dear Black

Thank you very much for your kind letter of the 10th December. I am interested to hear your view of the new appointment. It was good to see you again during your trip to London. I shall certainly let you know if I make any plans to come to the United States.

Yours v[ery] s[incerely]

R. Butler

Mr. Eugene Black

File "policy"

DRAFT
MMRosen
December 3, 1952

THE U.S. FOREIGN AID PROGRAM

In taking a "new look" at the U.S. foreign aid program, the Eisenhower Administration is likely to find it necessary to consider a number of fundamental questions of American foreign economic policy. Most of these questions are likely to be of immediate and direct importance to the operations of the Bank. Some of the important questions which the Eisenhower Administration will wish to answer are the following:

1. Should the foreign aid program be continued? Should it be limited to the furnishing of end-use military items; should it include economic aid for defense support to countries with a substantial military effort; should it include economic aid for economic development to underdeveloped countries?

2. In the present fiscal year, the foreign aid program is costing about $6 billion (of which $4.2 billion is military aid). Is the same size program needed for the next year or could it be reduced?

3. Apart from the question of the size of the program, is the present concept and type of program best suited to serve U.S. interests? What are the principal defects in the program from the standpoint of U.S. interests?

4. What revamping of the program should there be to overcome the objections to the present program?

5. Should the U.S. program be on a grant or on a loan basis?

6. What changes in the administrative structure of the program are required?

7. How has the present program affected the operations of the World Bank?

8. Does the IMF serve a useful purpose; should it be continued; what changes would increase its usefulness?

9. Should any changes be made in the World Bank?

10. Does the Bank have enough money for its future operations (both dollars and other currencies)?; should the capital structure of the Bank be changed?

11. What are the advantages to the U.S. of having the Export-Import Bank as its own lending institution in addition to the World Bank; how does the existence of the Export-Import Bank affect the World Bank?

12. How much is the World Bank likely to lend in the next year or two?

13. What can the U.S. do to stimulate private foreign investment?; how can the Bank help?; is private investment likely to eliminate the need for a foreign aid program?

14. Apart from the U.S. foreign aid programs, are there any other aspects of U.S. foreign economic policy which have an important effect on the operations of the World Bank?

15. Would it be useful to have a high level, full dress international economic conference in 1953 as the International Chamber of Commerce has suggested?

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File Title	Barcode No.
Leonard B. Rist - President Eugene R. Black Files - Correspondence - Volume 2 - 1952 - 1953	1849870

Document Date	Document Type
20 October, 1952	Letter

Correspondents / Participants
To : Mr. Eugene R. Black
From : Leonard B. Rist

Subject / Title
Stimulation of Private Investment

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Chandra Kumar	30-Oct-14

ADDRESS BY EUGENE R. BLACK, PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT BEFORE THE NEW YORK HERALD TRIBUNE FORUM, GENERAL ASSEMBLY ROOM, UNITED NATIONS, OCTOBER 19, 1952, 10:00 P.M.

Five years ago my predecessor, Mr. John J. McCloy, appeared before this Forum to talk about the work of the International Bank. The International Bank was then in its infancy - it was just over a year old. It was not only a new institution but a new kind of institution with little past experience and few precedents available to guide it.

The International Bank is now in its seventh year of operation. Seven years is not, of course, a very long time. But psychologists tell us that it is the years before seven that are most crucial in shaping the character and personality of the individual. And it may be that this is also true of institutions.

During these years the Bank has grown steadily - both in the scope and pace of its activities. It began operations in 1946 with 36 member nations. Today 54 countries are members. When Mr. McCloy spoke to you, the Bank had made four loans. Today, five years later, we have made 72 loans, in a variety of currencies equivalent to about a billion and a half dollars. Through these loans the Bank is helping to finance more than 250 projects in 28 different countries.

It is hard, even for those of us closest to the Bank's operations to appreciate the real drama which lies behind these statistics. A loan agreement providing foreign exchange for a 120,000 kilowatt hydroelectric plant in Northern Brazil is likely to be a cold, unimaginative document. But the sight of the great Sao Francisco river actually being harnessed and a potentially important new industrial area being created where before there was little but tropical wilderness - that is something quite different. It is something stirring and exciting. And so tonight, in telling you about our loans and some of the results they are helping to achieve, I am not going to speak in terms of increasing per capita national incomes or reducing dollar gaps or similar concepts. Rather, I shall try to give you some idea of what you would see for yourselves if you visited some of the many places all over the world where projects are under way with the help of Bank financing.

In the fertile fields of Chile, in the valleys and plains of Colombia, across the mountainous countryside of Nicaragua, you would see hundreds of new tractors at work, helping the farmers to grow more food.

In the central plain of India, you would see at work a fleet of 240 much heavier tractors - one of the largest tractor fleets in the world. This fleet has already cleared more than half a million acres of rich land which were previously almost useless for cultivation because of the encroachment of a stubborn and vigorous weed.

Some of the food grown by the farmers in Colombia will move to market along roads improved in the first stage of a comprehensive highway program which the Bank is helping to finance. In Ethiopia, too, heavy equipment is at work repairing and improving the roads. Already in some places a journey which took 12 hours a year ago can now be completed in four.

In France, in Belgium, in Luxembourg, a stream of steel - over two million tons a year - flows from the five mills which we have helped to finance.

In India and South Africa, locomotives and rolling stock purchased with Bank funds are carrying thousands of passengers and thousands of tons of freight every day. And more than 130 ships flying the French and Netherlands flags, which we helped to purchase, are plying the seas in international or coastal commerce.

I have not yet mentioned the kind of project which probably affects the lives of more individual men and women than any other financed by the Bank. I refer to the many projects in which we are interested for generating and distributing electric power, and for which loans of more than $350 million have already been made.

In Brazil, in the area around Rio de Janeiro and Sao Paulo, one of the most remarkable civil engineering works in the world has recently been completed. In the Paraiba-Pirai Diversion river waters are raised to an elevation of a hundred feet above the level of the river, and then drop a thousand feet onto the enormous turbines of the generating plants.

In Mexico, too, extensive plans for power expansion are being carried out with the aid of Bank funds. The total capacity in 1948 was about 1,000,000 kw. but when the projects in the present program are completed in 1955 it will reach 1,850,000 kw., almost double the 1948 capacity. This additional capacity will be used to serve Mexico's expanding industries as well as for irrigation and rural electrification.

These are some of our projects which are already producing tangible results. In addition, of course, there are many others which are in various stages of construction. In the Damodar Valley of India, a program along lines similar to that of the TVA has been started for flood control, irrigation and the generation of power. In Iraq, enormous earthmoving machines, driven by Bedouin tribesmen, are moving more than 40 million tons of earth to form a channel through which the flood-waters of the river Tigris may be diverted from inundating Baghdad and the fertile farmlands which surround it. And in Thailand, a dam is being built across the Chao Phya River, which will provide steady irrigation for over two million acres of rice lands. The foreign exchange cost of this project, which the Bank is financing, amounts to $18 million. The anticipated benefit is an increase in rice production amounting to nearly half a million tons a year, with an estimated foreign exchange value of roughly $50 million.

These examples are only some among many. I want to emphasize that, in the case of almost all of them, Bank funds are providing only a part of the required resources; in virtually every instance, the local currency costs are being financed from domestic sources. And it is local initiative, sometimes aided by technical assistance furnished by the Bank or by other agencies, which is providing the driving force for carrying these projects through.

I have said on other occasions - and I want to repeat it now, lest my recital of Bank-financed projects be misunderstood - that development is not something that can be purchased like a commodity if only enough money is made available. Much less is it something that can be imported from abroad.

We sometimes hear it said that foreign capital amounting to many billions of dollars a year should be going into the underdeveloped areas to raise their standards of living. In my judgment, those who advocate this are raising false hopes, which can only damage the very cause they seek to promote.

Capital on that scale is simply not available. Even if it were, the underdeveloped countries are not yet ready to use it. At present, they have neither the technical nor the human resources necessary to absorb any such astronomical amounts of capital quickly and effectively. Investment in capital plant will be effective only as new facilities are painstakingly engineered, only as there are trained workers, supervisors and managers to operate and maintain them effectively, and only as economic and financial policies encourage rather than obstruct the growth of production and of markets.

The pace of development is accelerating as these lessons are being learned, as the efforts of many national and international development agencies bear fruit. But there are no wonder drugs in this development business - no method by which massive injections of foreign capital can be made to substitute for sustained local effort.

But precisely because there are no short-cuts, there is urgency, and great urgency, in getting on with the development task. For as the world grows smaller, as world frontiers disappear, the existence of increasing prosperity and expanding opportunity for the relative few side by side with hopeless wretchedness for the vast majority is becoming gradually intolerable. The urge to narrow just such gaps between the relative few and the many has been the force behind most social upheavals, and we would be blind indeed if we did not recognize that similar forces are today at work throughout the underdeveloped areas of the world.

We need not be frightened of those forces. Properly channeled they can give a mighty momentum to economic progress and, through revitalized and enlarged international trade, can enhance the prosperity of all of us. But if those forces are throttled, if they are not permitted a productive outlet, they will one day burst forth in turmoil and in violence.

It is our common desire for a world of stable peace, of expanding production and trade, and above all of opportunity for free men to control their own careers which is the common bond of all free nations. None of us, I am convinced, can long enjoy these things in isolation. So long as the storms of social unrest threaten throughout major areas of the world, no islands of peace and prosperity are safe from being engulfed.

Development, then, is by no means the exclusive concern of those countries whose standard of living is still woefully low. It is of vital concern, too, to the more industrialized nations, for whom an expanding world economy is the only safeguard for the advances they have won and for the further advances they hope to win.

It is not an easy task which faces us. It requires action - energetic action - on many fronts.

Financial assistance will continue to be needed for many years from those more developed countries which can afford an export of capital. And we must face up frankly to the fact that in some of the poorer nations the rate of development cannot be accelerated substantially if the only external capital they receive consists of loans which have a reasonable prospect of repayment. To the extent that these countries are to be given additional assistance, I feel strongly that it should be in the form of grants, plainly marked as such, and not disguised as loans by the addition of a nominal interest rate and a due date many decades hence. Pseudo loans of this type can only serve in the long run to impair the integrity of all international obligations.

Technical assistance, too, will need to be continued and intensified and a satisfactory link will have to be forged between technical and financial aid.

Above all, the contribution of the industrialized countries must be steady and continuous, not sporadic. It must not be warped by politics. And it must be accompanied by economic and trade policies consistent with the development objective, in particular the removal of all unnecessary restrictions on the movement of goods in world trade.

But the main part of the job, of course, will have to be performed by the underdeveloped countries themselves. Theirs is the task of creating an appropriate environment for development. It is up to them to break through the social stratifications that stifle initiative, to create systems of land tenure that will encourage every cultivator to make the most of the soil, and, through education, to make modern knowledge a practical force for bettering the lives of their people. To them, too, falls the task of formulating and carrying out wise investment programs, and of following policies which will at the same time maintain monetary stability and maximize the productive investment of domestic resources.

These will be arduous accomplishments. They will require firm leadership, hard work and much sacrifice, and mainly on the part of peoples who have suffered greatly and who are inexperienced in the art of democratic self-government. Yet nothing less will meet the need - for, if I have analyzed the development objective correctly, it will require telescoping within the span of a few generations, social and economic advances whose evolution in the more developed countries has covered centuries.

The job confronting us is tremendous, yet what is at stake is tremendous too - the creation of the only kind of world in which realization of our national aspirations is possible. Large as the problems are, they are not any bigger than the resources which the free world can reasonably devote to their solution. Indeed, the very recognition of the dimensions of the task is the first step towards its accomplishment. And if we see clearly our common goal, I think we can and will achieve it.

# # # # #

Form No. 58
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Rist 306

DATE: August 18, 1952

FROM: Harold Graves HG Jr.

SUBJECT: Mr. Black's Speech to the Governors

Here is a second draft of Mr. Black's speech to the Governors.

Could I have your comments Thursday morning?

Looks O.K. to me. I do not care for Dick Demuth's substitute ending, however, and ~~told~~ said so to Graves. JMR

Attachment

Mr. Black August 18, 1952

Harold N. Graves

Your Speech to the Governors

Attached is Dick Demuth's proposed conclusion for your speech, which came in by mail just before lunch. His proposal is to substitute this material for the latter part of the present draft, beginning on page 7 after the paragraph on the Indus River.

cc: Messrs. Iliff, Rist and Sommers

HNGRAVES:ap

Draft Conclusion for Mr. Black's Speech to the Governors

It is always essential in an undertaking like ours to take bearings periodically. These Annual Meetings provide an appropriate and recurring opportunity to reexamine our broad objectives and to analyze our activities in the perspective which those objectives provide.

The starting point for that reexamination, it seems to me, is to inquire what community of interests it is which has brought together here at this meeting the economic and financial leaders of 51 different nations -- what community of interests it is that makes the work of the Bank in promoting economic development of concern to each of our members, whatever may be its own particular stage of development.

Surely, our common bond is not solely, or even primarily, humanitarian. The impulse of man to help his fellow man is deep-seated and ennobling; it motivates more of our thinking and action than we are usually wont to admit. Yet it remains true, I believe, that in our present-day world of intense nationalisms, no international endeavor which does not satisfy the test of national self-interests is likely long to endure.

Nor, in my judgment, is the bond which ties us together in the development effort the immediate need to defend ourselves against the aggressive forces of Soviet imperialism. Resources devoted to development are a long-term investment; they will not, they can not, buy us short-term security. The investment would better not be made at all if it be regarded as an emergency measure to meet an immediate crisis. For developmental investment on a crisis basis would not meet the need for sustained, continued effort over a substantial period of time; it would only raise hopes destined for ultimate frustration.

No, neither humanitarianism nor defense against present aggression is the main element in our community of interests. Our real bond, as I see it, is deeper, more fundamental. It is the fact, sometimes only dimly perceived, that as the world grows smaller, as world frontiers disappear, the co-existence of increasing prosperity and expanding opportunity for the relative few and hopeless wretchedness for the vast majority is becoming gradually intolerable. Economic progress everywhere has been marked by social revolutions caused by just such gaps between the relative few and the many -- and we would be blind indeed if we did not recognize that similar revolutionary forces are today at work throughout the underdeveloped areas of the world.

We need not be frightened of those forces. Properly channeled they can give a mighty momentum to economic progress and, through revitalized and enlarged international trade, can enhance the prosperity of all of us. But if those forces are throttled, if they are not permitted a productive outlet, they will one day burst forth in turmoil and in violence and will threaten all the values we hold dear.

Here, then, is our real community of interests: our common desire for a world of freedom, of stable peace, of expanding production and trade, and above all of opportunity for free men to control their own careers. None of us, I am convinced, can long enjoy these things in isolation. So long as the storms of revolution threaten throughout major areas of the world, no islands of peace and prosperity are safe from being engulfed.

Development is thus not the exclusive concern of those countries whose standard of living is still woefully low. It is of vital concern, too, to the more industrialized, more fortunate nations, for whom an expanding world economy is the only safeguard for the advances they have won and for the further advances they hope to win.

It is not an easy task which faces us. It requires action -- energetic action -- on many fronts.

Financial assistance will continue to be needed for many years from those more developed countries which can afford an export of capital. Contrary to some popular thinking, the amount of funds which can be used effectively for development is not astronomical -- the underdeveloped areas do not have and cannot rapidly acquire the technical capacity to utilize productively any huge inflow of resources. Yet the present magnitude of international investment for development is clearly inadequate to the need. Given the proper environment, I am confident that the amount of that investment can be increased. Yet we must face up frankly to the fact that, for some countries, a satisfactory rate of development cannot be attained if external assistance is limited to repayable investment.

Technical assistance, too, will need to be continued and intensified and a satisfactory link will have to be forged between technical and financial aid.

Above all, the contribution of the industrialized countries must be steady and continuous, not sporadic. It must be free of political strings and motivations. And it must be accompanied by economic and trade policies consistent with the development objective, in particular the removal of all unnecessary restrictions on the movement of goods in world trade.

But the main part of the job, of course, will have to be performed by the underdeveloped countries themselves. Theirs will be the task of creating an appropriate environment for development, by breaking through social stratifications, by creating systems of land tenure conducive to maximum production, by engaging in intensive educational efforts, including particularly vocational training and farm extension services, by formulating and carrying out wise investment programs, and by adopting fiscal and economic policies which will at the same time maintain monetary stability and maximize the productive investment of domestic resources.

These will be arduous accomplishments. They will require firm leadership, hard work and much sacrifice, and mainly on the part of peoples who have suffered greatly and who are inexperienced in the art of democratic self-government. Yet nothing less will meet the need -- for, if I have analyzed the development objective correctly, it will require telescoping within the span of a few generations social and economic advances whose evolution in the more developed countries has covered centuries.

Because the job confronting us is tremendous in its proportions we need not, we must not, shrink before it. For what is at stake is tremendous too -- the creation of the only kind of world in which realization of our national aspirations is possible. The very recognition of the dimensions of the task is the first step towards its accomplishment; our actions will be too timid and indecisive unless we see clearly the end for which we are striving and what is required to achieve it.

In this whole development effort, the Bank has, I think, a vital role to play, not only as the source of some of the capital that is needed but even more as a focal point for stimulating and supporting constructive action on the part of all those in many lands who are working towards our common goal. For my colleagues and myself, I pledge you the devotion of all our energies to the fulfillment of the opportunities which lie before us.

Draft of Mr. Black's Speech to the Governors

Let me begin by expressing my gratitude for the gracious hospitality being shown to us by the Government of Mexico. It was, I think, a happy decision of the Governors that we should meet in this capital city. It gives us a chance to see with our own eyes something of a nation in which the process of economic development is fully under way.

Since before the war, the income of the Mexican citizen has, on the average, increased by more than half. This improvement has been brought about by the growth of production in almost every part of Mexico's economy, agricultural as well as industrial. It was achieved without conspicuously plentiful resources and often under difficult circumstances. It has been based, to mention only a few of many factors, on the energies of the Mexican people, the adaptability and initiative of farmers and business men, on sound investment of public funds in the expansion of basic utilities and social services, and on the sustained confidence of the country in a succession of competent national administrations.

The relations between the Bank and Mexico have been particularly close and continuous. The fact that we are meeting here is evidence not only of Mexican hospitality but also, I hope, of mutual satisfaction. Mexico, as a member of our Bank, can welcome us; and we, for our part, feel at home here.

This has been an active 12 months for the Bank. We maintained and slightly exceeded the record volume of lending we established last year. We provided more technical assistance to our members, especially in the planning of development. We were more active in raising funds in the capital markets of the world.

For the second consecutive year, our lending approached $300 million. That sum is composed of $30 million of new loans in Asia, $68 million in Africa, $79 million in Latin America, and more than $120 million in Europe. Our second loan to Australia did not come until after the end of the fiscal year, but in each of these other areas, we lent more than in the year preceding; and in Europe we lent substantially more.

Disbursements rose to $185 million, the highest level since fiscal 1948. More than a third of this was used for purchases outside the United States.

The Bank has continued to adapt its lending policies and procedures to the differing problems presented by its borrowers.

We usually lend for specific and individual projects. In the great majority of cases, this is the most practical and effective form of collaboration between us and the borrower. But even when we make loans for single projects, we often are financing some key component of a larger undertaking. Some of the Governors were glad to observe last year that in the case of Australia, we were giving support to an entire program of development. We have made additional program loans since we convened in Washington 12 months ago -- to the Belgian Congo, to Italy, to Yugoslavia and, for a second time, to Australia. These cases differ in detail, but they all reflect the principle that the Bank is more interested in the progress a country can make on a broad front than in the success of a particular project. Program loans may continue to be the exception rather than the rule; but they definitely have taken their place among the instruments used by the Bank to promote economic development.

In other ways, the Bank has kept its lending techniques flexible. Our loan of last October in support of the 10-year plan for the development of southern Italy, for instance, is for us a new kind of transaction. It is not intended to finance the equipment needed for carrying out this program. Rather, it will cushion the impact of the program on the Italian economy, by providing dollars to meet some of the demand for consumption goods that the 10-year plan will generate.

Our loan to Belgium, likewise, might be called an "impact" loan -- designed in this case, to offset the dollar cost that will be occasioned by Belgian support of a development program in the Congo. One incidental aspect of our loan for the expansion of electric power facilities in Southern Rhodesia is somewhat similar. Dollars lent by the Bank will be used primarily for sterling purchases, and will help to offset the sacrifice of hard-currency earnings that Britain is making in order to supply goods and equipment for development in Southern Rhodesia.

The Bank is keenly aware of the necessity for keeping its lending flexible in another important respect. Up to now, as you well know, the Bank has lent chiefly in dollars. To the extent that we can lend in other currencies, we can better meet the needs of countries more able to service debt in those currencies than in dollars. During the year, we made one loan to Iceland and another to Yugoslavia which are repayable entirely in European currencies. Almost half our railway loan to Pakistan consists of French francs, and part of our loan to Southern Rhodesia will be disbursed in South African pounds. Nearly 15 per cent of the amount we lent this past year is repayable in currencies other than dollars -- a proportion much higher than in any previous year.

With our lending at the current rate, we have increased our own borrowings. We went to the capital markets four times, with two bond issues in the United States and our first public offerings in Canada and Switzerland. The total amount of our issues was equivalent to approximately $175 million, a sum greater than in any year since 1947. The Bank has also replenished its lendable funds by $23 million of sales from its portfolio.

I am glad to say that our bonds enjoy a strong position in Switzerland and Canada, and that as the amount of our dollar obligations has increased, there has been a satisfactory broadening of the market for our securities in the United States. The Bank has been affected, however, by a general trend toward higher interest rates. We have had to pay more on our own borrowings, and there has had to be a corresponding rise of interest rates on our loans.

I would like to emphasize that the market for the Bank's own securities and for those received from borrowers is becoming more and more international in character. Of the more than $500 million worth of direct and guaranteed obligations we have outstanding, investors outside the United States hold approximately one-quarter. The central banking institutions of 12 of our member nations, in particular, have acquired for their reserves some of the largest known holdings of the Bank's bonds.

Finally, the Bank's lendable resources, as I have already implied, were increased by the release to us of parts of the local currency subscriptions of some of our member countries. The French Government, for instance, released the francs which will be used in the Pakistan loan, and the South African Government has made available to us pounds which will be used in the loan for Southern Rhodesia. Of particular note, let me say, was Canada's release, in the spring of this year, of 41 million Canadian dollars on a fully convertible basis. This constituted the balance of her original subscription of 58.5 million Canadian dollars to the Bank's capital.

I am hopeful, in spite of all the known difficulties, that the Bank will continue to receive releases of the currencies of its European members. The need for non-dollar funds is as urgent as ever.

One of the main objectives of the Bank, I hardly need remind you, is to promote the international investment of private capital in economic development. The Bank's bonds themselves are one of the principal avenues by which such investment is made, and most of our sales from portfolio have been made to private investors. In addition, however, the Bank has continued to be able to interest the private market in more direct participation in its lending. American banks this year took portions of two of our loans -- one to the KLM Royal Dutch Airlines, the other to Pakistan -- at the time they were made. I see signs that private participation in our lending will become an increasingly important feature of our operations.

One condition, of course, for the international investment of private capital is that there be a reasonable prospect of repayment. In some cases, this prospect is clouded by the existence of obligations already in default;

and in some instances the Bank has been able to encourage its member governments to start negotiating settlements on these obligations as an essential means of encouraging the resumption of foreign investment.

We have also, as you will have noticed in our Annual Report, taken an interest in a proposal to establish an International Finance Corporation as a new instrument for investment in private enterprise. This Corporation would be affiliated with the Bank, but would have its own capital subscribed by member governments. It would be able to do two things the Bank does not do: it could make loans to private enterprises without governmental guarantees, and could provide equity capital. We have prepared a report on this proposal, and shall continue to explore the idea with private financial and business interests and with our member governments. While only actual experience would show, I personally think that the Corporation might be a useful instrument for stimulating investment of private capital, both domestic and foreign, in enterprises significant in economic development.

The Bank, of course, does not regard itself merely as a source of financing for development. I have often said to you in these meetings that internal factors are more important in a country's economic growth than outside financing. We have therefore continued, at the request of member countries, to send out general survey missions, composed of impartial experts, to help those countries assess their potentialities and to draw up broad programs which will best channel their own energies and resources into development.

The reports of four of these general survey missions were presented during the year, to the governments of Cuba, Guatemala and Iraq, and jointly to the governments of the Netherlands and Surinam. The report of our mission to Ceylon was published earlier this week in Colombo and Washington; and our recent mission to Jamaica is preparing its recommendations in final form.

Economic surveys, I hardly need tell you, are nothing new. Many good ones have been done, and some of them lie moldering in the archives of our member nations. I am glad to say that this, so far, has not been the fate of our surveys. I believe that the Governor for Colombia would agree with me that the report of our mission to his country, and the recommendations by a citizens' committee on economic development which followed it, have already had an important influence on the economic life of Colombia. In the case of other countries more recently visited by our missions, our Annual Report gives many encouraging instances of action already under way to carry out fundamental recommendations and provide a basis for accelerated economic progress in years to come.

The Bank has continued to take a broad view of its responsibilities and opportunities in other respects. Indeed, we could hardly do otherwise and remain faithful to the character of our Bank as a cooperative, international institution, with no political axes to grind but a good deal of technical skill to put at the disposal of our member countries.

Early this year, after expressions of interest by Iran and the United Kingdom, representatives of the Bank visited London and Teheran. The purpose of our mission was to see whether the Bank could work out some interim arrangement for restoring oil operations in Iran and give the parties to the dispute there time to reach agreement. Our efforts, as you know, were not successful, and our negotiations were recessed in Teheran last March. Let me affirm today, however, that we are ready to resume negotiations if both parties should wish us to do so and if new elements offering some prospect of success should appear in the situation.

The Bank has also offered its services in another matter affecting two of its member countries. When I was in Asia late last winter, I discussed with the Prime Ministers of India and Pakistan an invitation I had already extended for the two Governments to examine, together with the Bank, the possibilities of developing the water resources of the Indus River System which are so important to the economic development of both these countries. The Governments accepted this invitation. Their engineers met with ours in Washington this spring, and successfully completed a series of meetings which drew up a program for studies of possible technical measures to increase the supplies of water in the Indus Basin. Their engineers and ours will convene again next November in Karachi for an exchange of information as a prelude to further meetings. I personally am encouraged. I hope that the eventual outcome will be the development of these water resources, with the help of the Bank, in a way which will bring great benefit to millions of people in both India and Pakistan.

As we review the Bank's performance in the past year, I think we can take satisfaction from a record that shows our operations have been disturbed remarkably little by the economic changes which have taken place since the outbreak of war in Korea. Looking forward, it seems to me that if the Bank and its members fully grasp the opportunities they have, the coming year will see a significant increase in the Bank's operations.

In Europe, there continues to be an urgent need for greatly expanded production. This will require heavy investment in new plant and equipment, as well as in modernization of old. It will have to be achieved without provoking inflation, and will have to take place at the same time as United States aid is being reduced in scope and amount.

The Bank, for its part, can supplement Europe's own capital with dollar loans. I have already remarked that the scale of the Bank's lending in Europe was substantially increased during this past year. Our ability to lend in dollars, however, is limited by the fact that the capacity of many European countries to service additional dollar debt is itself limited.

From now on, it is clear, the countries of Europe will have to rely more on their own savings, and will have to mobilize their own capital more effectively. This is a subject which is being actively studied on the continent. The Bank has followed this study closely and with sympathetic interest.

Some of the proposals which recently have been made envisage the creation of a new financing institution. If new arrangements come into existence, the Bank would, of course, cooperate with them. But let me point out that new institutions themselves do not create savings. Fundamentally we must work with what we have. I myself believe very strongly that the Bank itself could operate effectively as an instrument for mobilizing European capital, and I doubt that sufficient consideration has yet been given to the role we might play in this respect.

The Bank already has had some experience in tapping private resources by the sale of its securities in European markets. With the cooperation of its members, it could be more active in raising additional private capital. That might well require the working out of new types of bonds and of distribution techniques that have not yet been tried. I think this is a field well deserving further study, and I am anxious to explore, with the Governors most closely concerned, any adaptation of our operations that would better fit them to the special conditions now prevailing in Europe's capital markets.

Moreover, the continuing movement toward economic integration in Western Europe may raise new opportunities for the Bank. The Schuman Plan, for instance, which aims at the integration of the continental coal and steel industries, is now in its final stages of preparation. The capital requirements of the Plan certainly will be large, and the necessary equipment probably can be procured for the most part in European currencies. Should the Bank be asked to provide some of the funds, questions would arise with which we have not previously been confronted, for example, concerning the form of guarantee needed for a loan to an international body. In any case, the Schuman Plan potentially has great importance. It is one of the projects that the Bank, should it be called on, would be glad to search for feasible ways to assist.

For those of our member countries who are leading producers of primary commodities, the swift rise of raw materials prices that followed the outbreak of the war in Korea, and now the recession of those prices to pre-Korean levels, have been the outstanding economic events of the past two years.

Not all primary products shared in the boom, and not all our less developed members shared in the higher earnings of foreign exchange that resulted. Nevertheless, a number of our member countries in Asia and Latin America made good use of extra earnings by devoting a sizeable portion of them to financing economic development. To do so required firm and expert handling of the inflationary pressures exerted by high prices in world markets; among several noteworthy performances of this kind, I might specifically mention those of India and Colombia, (Dom. Rep.) Costa Rica. At the other extreme, I regret to say, some members of the Bank not only failed to take advantage of high raw materials prices, but allowed inflation to distort their economies to such an extent that they are not so well off today as they were two years ago.

In any event, the boom is now over and our less developed member countries are left to deal with the same hard problems that confronted them before. There are, however, many factors in the situation which I find encouraging. In the post-war years, and particularly in the last two, I think much progress has been made, both in a growing understanding of economic development and in the adoption of techniques to bring that development about.

The governments of underdeveloped countries are realizing more and more that economic progress is the primary responsibility of the countries themselves. Responsible leadership, to an increasing extent, is buckling down to the job, and is attempting to achieve progress through sound planning, financing and engineering.

Many of the world's less developed countries are attempting to shape their economic policies -- and especially their investment policies -- to make better use of their own physical and financial resources. Intensive stocktaking of these assets has been undertaken by an increasing number of governments as a first step in gauging more accurately the potentialities of their economies and determining the directions in which development should move. Programs and programming agencies have been established to assure continuity of effort. Finally, the financial resources, and the increasing skill of the underdeveloped countries in planning the use of those resources, have been supplemented by a growing volume of financial and technical assistance from the more advanced nations.

The problems which face the underdeveloped countries are still tremendous and difficult. Often in the past, I have stressed the shortcomings of the policies and practices of our member nations in dealing with these problems. I could read another sermon on this theme today.

Nevertheless, the scene presented by the underdeveloped countries is one of growing activity, and of a growing amount of soundly planned activity. The implication for the Bank is that we have a broader and better basis on which to conduct our operations.

Many times, the Bank has warned that massive injections of foreign capital, especially in the form of loans, cannot successfully be absorbed in the first stages of a country's development. We have pointed out that shortages of skilled manpower and the lack of basic facilities are limiting factors which will take a long time to overcome. These statements have sometimes been misconstrued as expressing a timidity or a lack of real will to promote development.

The facts show otherwise. To more than half our borrowers, we have made repeated loans -- to Mexico, for example, in 1949, 1950 and 1952; to Colombia in 1949, 1950 and 1951, and to Brazil in 1949 and every year since then. In countries of Asia and Africa, as well as in the developing countries of Europe like Turkey and Finland, we are doing the same thing.

These continuing relationships are proof that, far from recoiling from additional commitments, we are on the contrary supporting the development of our member countries year by year and step by step.

We are supporting the financing of development in the only way we can support it -- as a bank. We are lending to our borrowers as much as they can effectively use and as much as they can reasonably be expected to repay; and we are lending for those purposes that will do the most to make the borrowing countries more productive and able in the future to put still more money to work. This is the basic principle of investment. Soundly and persistently applied it can help nations to move forward as fast as their own abilities, their own energies, and their own will for progress will permit.

July 31, 1952

Mr. Eugene R. Black
President
International Bank for
Reconstruction & Development
1818 H Street, N.W.
Washington, D.C.

Dear Mr. Black,

Thank you very much for your gracious letter. For my part I want to say that I enjoyed my period of employment with the Bank very greatly indeed. It has been for me a most worthwhile and most interesting experience. If I can serve the Bank in the future in any capacity, and can obtain the release to do so, this will be with pleasure.

One of the things which has been most worthwhile has been the realization of the harmony and smooth cooperation which seems to permeate the Bank's staff. It is truly a most unusual institution from this point of view as well as from others. This feature of the Institution is due in no small part, I am sure, to the quality of your own leadership.

Cordially yours,

Paul T. Ellsworth

<u>How Secure is Present World Prosperity?</u>

by

Eugene R. Black

Excluding the catastrophe of a third world war, most people see two main threats to continued world prosperity. One is the threat of inflation and general distortion of economic activity caused by the rising defense expenditures throughout the free world. These expenditures do, of course, push employment to high levels; and they keep productive facilities fully utilized - or nearly so. But they also restrict consumption and productive investment. They force individuals to sacrifice, and make businesses postpone execution of some of their plans for expansion. They create serious fiscal problems for governments trying to curb inflation. In my judgment, however, the problems imposed on the nations of the free world by the current defense effort are not an insurmountable danger to continued prosperity.

I believe this for several reasons: Productive capacity is being rapidly expanded, existing capacity is being more efficiently used, and vast resources in many regions are being more effectively developed. If the energies of the free world are fully mobilized, they can withstand the strain of necessary expenditures for defense.

The second threat to continued prosperity is almost the exact opposite of the first. It is the threat of deflation following a cutback in defense expenditures. Such a cutback might mean mass layoffs, idle machines, and a general slowing down of business activity. Undoubtedly a decline in demand for defense goods would cause a temporary shock to the economies of many nations. But at the same time the immense volume of resources now used for defense production would be released for the satisfaction of consumer needs, and backlogs of savings now being built up could be productively invested.

There are those who argue that our economic system is incapable of fully using its productive capacity except when defense requirements are paramount. I do not agree. I think that the readjustments which were made following World War II have shown that our economic system can adapt itself to changing economic requirements. For example, the fiscal, monetary and wage systems which have been developing in most of the leading industrial countries have created "stabilizers" which can check the speed of deflationary trends. Of course recessions from high levels of economic activity will never be eliminated, but means are being developed to prevent a ruinous accumulation of the forces of deflation.

This does not mean that continued world prosperity will occur as a matter of course. It will be necessary to take advantage of every sound opportunity to put to work the resources of the free world. I believe that many such opportunities may be found in the progressive development of the world's underdeveloped countries. A start has been made. I hope that the time will soon arrive when the urge of the underdeveloped areas for a more rapid rate of growth will result in the framing and execution of an increasing number of realistic development programs.

Development of economic and human resources is of major importance both to these countries and to the industrialized nations. Economic growth can provide added sources of raw materials and new markets. It can raise trade levels, accelerate the long-term increase of world income, and provide a steady outlet for savings accumulated in countries which already enjoy high per capita incomes.

These things have a vital bearing on continued world economic prosperity. Whether the economy of the free world is geared to defense expenditures or to the satisfaction of consumer demands, sound economic development can add greatly to its strength and balance.

GAlter:od
5/7/52

Black

Dear Mr. Mendès-France,

I found your letter of March 6th upon my return to Washington and it is a pleasure for me to send you the enclosed letter to Mr. Colston Leigh.

I hope you will find it satisfactory and useful.

Yours sincerely,

Eugene R. Black

1 att.

Mr. Pierre Mendès-France
23, rue du Conseiller Collignon
Paris, 16e

Léonard Rist/mlc/

Dear Mr. Colston Leigh,

I understand that you are contemplating the organization of a lecturing tour for Mr. Pierre Mendès-France, member of the French National Assembly. I do sincerely hope that you shall be able to carry this plan through since I know of few foreign statesmen who could speak as authoritatively to an American audience.

After brilliant studies at the University, Mr. Mendès-France was for a while the youngest Deputy in the French Chamber as a member of the moderate "Radical Socialiste" Party. His contribution to the Finance and Economic Committees in the French Chamber was very well known well before the war. Atthe time of the German invasion of France, Mr. Mendès-France was arrested for his opposition to the Vichy regime and the policy it symbolized. He escaped from prison and joined the Free French forces in London, and after outstanding military achievements in the Air Force, became a minister under de Gaulle before the liberation of Paris. After the liberation of Paris he stayed on as Minister of Economic Affairs until the fall of the Cabinet.

He had been the top French delegate at the financial conferences of Bretton Woods and Savannah, and was the first French Director on the Board of the International Bank. He has remained Governor for France in the International Monetary Fund ever since 1946.

His deep knowledge of French conditions and problems, coupled with a remarkably broad international outlook and outstanding diplomatic abilities would make

Mr. Mendès-France an unusually interesting and stimulating speaker on international political, financial and economic matters.

I may add, on the basis of the friendly relations I had with Mr. Mendès-France for several years, that his interest in the United States is very keen. He knows our country well, and he commands enough influence in France to make it worthwhile for him to be fully apprised of the points of views and opinions of the American people.

Yours sincerely,

Eugene R. Black

Mr. W. Colston Leigh
521 Fifth Avenue
New York, N.Y.

Leonard Rist/mlc/

FILE COPY

not sent

Messrs. Garner, Iliff, Sommers, Hoar,
Grena de Jongh, Demuth.-

May 9, 1952

Leonard B. Rist

Gold or Exchange Guaranteed Bonds.-

I have briefly discussed the subject of the attached note with Mr. Black.

He wishes to have a restricted meeting of the Staff Loan Committee to discuss the subject.

except to Black Iliff & Hoar

1 att.

FILE COPY

Mr. Eugene R. Black May 9, 1952

Leonard B. Rist

Gold or Exchange Guaranteed Bonds.-

1. A few months ago the Greek government explained to the Bank that it was preparing a stabilization plan and was interested in restoring the public credit at the same time. Both for the purpose of encouraging savings and providing the funds needed for necessary investments, the Greek government asked whether the IBRD could issue a drachma bond in Greece with an exchange guarantee or gold guarantee and lend the proceeds to either the Greek government or a Greek agency. The two loan agreements would contain the same exchange guarantee. In other words, the Bank would act as primary debtor for a drachma debt of the Greek government. The amount involved was relatively modest, say 10 to 20 million dollars. It was agreed within the Bank's management that such an operation could be considered.

2. Since then the question of gold or exchange guarantee bonds has been widely discussed in the Bank and outside. The French press in particular has indicated that in conjunction with the stabilization efforts of the Pinay government there was much talk of a gold guaranteed loan to be issued by the French government. It is felt that such a formula could encourage savings, finance the government investments and in addition call out of hoarding gold and exchange holdings, and thereby improve the reserve position of the Central Bank.

3. Some of us in the Bank have discussed at various times whether the IBRD could be of any assistance in this case. Two possibilities are open:

(a) if a provision relating to gold or exchange guarantee does not inspire confidence - for instance because of the fear that it may be interpreted arbitrarily by the government - the intervention of an international organization as umpire to interpret the clause might act as a stimulant. The Bank, however, is not the only organization which could be called upon to play such a role if desired by the government ; the BIS or the Fund would be just as likely choices.

(b) The operation which was contemplated in the case of Greece could be adapted to France. In that case, the IBRD would be the primary borrower and the proceeds of the loan would be lent to the French government. No exchange risk would be involved for the Bank since both borrowing and lending contracts would have the same clause. From the Bank's point of view, the great difficulty arises in connection with the amount. Since the French government seeks to borrow for investment purposes something like $600 million during this fiscal year, the question arises whether a commitment of this kind in onesingle country would be at all acceptable. A subsidiary question would be whether the Bank could accept to play the same role for a smaller issue, say $100 to 200 million which would in effect be a first guaranteed issue to be followed by similar issues of which the primary debtor would be the French government.

4. My personal impression is that if the exchange clause is watertight, the French government should be able to launch an issue on its own. But the impression in Paris may be different and I feel that it would be useful to have a preliminary reaction of the Staff Loan Committee for the guidance of those who might hear about this problem in the near future.

Note: I have not mentioned a "gold loan" in the strict sense sinse for all practical purposes there is no difference between obtaining subscriptions in physical gold and provoking the sale of gold hoardings to the Central Bank to obtain French francs which in turn will be used for the subscription of the bonds. In addition, a bond sold against a physical delivery of gold may have to be redeemed (if not fully serviced) in actual gold, a very intricate operation.

January 24, 1952

Dear Charles:

Thank you very much for sending me the draft memorandum on the proposed NPA study with your letter of January 17. As you know, I feel that the idea of making an objective case study of the effects of foreign private investment on the developmental process of the underdeveloped countries is an excellent one. I personally believe that the results of such a study will show that foreign private investment, even in purely extractive activities, has had a terrific impact on the general economic welfare of the countries in which the investment is made.

This kind of study, if well done, should have an important influence not only here in the United States but even more important in the underdeveloped countries, in convincing them of the desirability of taking the measures to establish an appropriate climate for private foreign investment. It is most essential, therefore, that the study be done in a completely objective manner so that its results will have the full effects which we both want.

With this in mind, I have two specific suggestions to make on your memorandum on procedure. The first is a matter of form only and that is that you let the paragraph which is underlined on the first page be eliminated from the present draft. I am sure that the conclusion contained in that paragraph will emerge from the study but I feel that it would be much better to have the conclusion only after the study has been done rather than be subjected to possible attack on the grounds of having instructed the investigators on the findings they were to obtain.

My second point deals with the actual selection of the specific companies whose activities are to be investigated. Here too I think that it is most important, if the study is to affect the policies of the underdeveloped countries, that there be no possible basis for them to charge that the choice of companies was made in such a way as to influence the results. A specific proposal to meet this desired end might be to pick a half dozen countries in which the investigations are to be made. Then the NPA could go to these countries, discuss the proposed study with them, and the NPA and the country would each nominate five companies which have operated in the country for case investigations. I am convinced that even if the companies were to be selected on this basis the results of the study would be to show the beneficial overall effect of private foreign investment and the study would then be more likely to influence the country to be receptive to foreign investment.

These are merely suggestions for procedure which you may want to consider. We shall be following with closest interest the results of the case investigations as they develop.

Very sincerely yours,

Eugene R. Black

Mr. Charles J. Symington
230 Park Avenue
New York 17, N. Y.

MMRosen:dbs
1/24/52

Mr. Black January 23, 1952

Donald D. Fowler (Signed) DONALD D. FOWLER

Professional Staff Meeting

Mr. Rist was the principal speaker at what proved to be one of the best Professional Staff Meetings to date. You will, I am sure, be interested in seeing the attached copy of Mr. Rist's talk, which is an expert condensation of five years' experience in the business of determining creditworthiness.

cc: Mr. Rist

Mr. Eugene R. Black   January 7, 1952

Leonard B. Rist

Statement for inclusion in Mr. Melville's letter to Mr. Fadden.-

(1) It is suggested that Mr. Melville be authorized to include in his proposed letter to Mr. Fadden something along the following lines:

"I have been talking to Mr. Black about his forthcoming trip to Asia and Australia. He has told me that he is particularly looking forward to his trip to Australia since he is very anxious to obtain a first hand impression on the problem of inflation in the Commonwealth, about which he has heard so much, and on the measures being taken to bring inflation under control. Mr. Black told me that he was impressed with the courage shown by you in your budget presentation ; he particularly referred to your attributing the inflation to "preponderantly local origin" and to your budgeting for a sizeable counter-inflationary surplus."

(2) Such a statement is justified:

(a) Mr. Fadden in his Budget Speech in September was realistic enough to state that the Australian inflation was "preponderantly of local origin" with external causes playing a subsidiary part.

(b) He was courageous in introducing a Commonwealth budget which for the first time in history deliberately provides for a sizeable counter-inflationary budget surplus (of around £A 114 million).

(c) The Commonwealth Bank has been unobtrusively tightening credit. The interest rate on Commonwealth issues has risen from 3-1/8 to 3-3/4 per cent.

(3) Anti-inflationary steps which have been taken so far may not be sufficient. If a strictly personal message from you to Mr. Fadden is helpful in keeping up Mr. Fadden's will to fight to maintain the present measures, it is highly desirable that such a message be given.

cc Rosen

Form No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Leonard ~~B.~~ Rist Black

DATE: January 2, 1952

FROM: Andrew M. ~~Kamarck~~ and Rist

SUBJECT: Statement ~~by Mr. Black~~ for inclusion in Mr. Melville's Letter to Mr. Fadden

1) It is suggested that Mr. Melville be authorized to include two sentences in his proposed letter to Mr. Fadden along the following lines:

"In discussing the plans for his trip to Asia and ~~Australia~~, Mr. Black remarked that he was impressed with the courage shown by you in taking the first steps toward bringing inflation in ~~Australia~~ under control. He particularly referred to your preparing the Commonwealth budget to show a surplus in the current ~~fiscal~~ year." see over

2) Such a statement is justified:

(a) Mr. Fadden in his Budget Speech in September was realistic enough to state that the Australian inflation was "preponderantly of local origin" with external causes playing a subsidiary part.

(b) He was courageous in introducing a Commonwealth budget which for the first time in history deliberately provides for a sizeable counter-inflationary budget surplus (of around £A 114 million).

(c) The Commonwealth Bank has been unobtrusively tightening credit. The interest rate on Commonwealth issues has risen from 3-1/8 to 3-3/4 per cent.

3) Anti-inflationary steps which have been taken so far may not be sufficient. If a strictly personal message from ~~Mr. Black~~ you to Mr. Fadden is helpful in keeping up Mr. Fadden's will to fight to maintain the present measures, it is highly desirable that such a message be given.

~~cc: Mr. Rosen~~

AMK/vhn

M. Rosen
Do you agree?

M Rist
My only question is whether this goes far enough - How about something like this: (OVER)

"I have been talking to Mr. Black about his forthcoming trip to Asia and Australia. He has told me that he is particularly looking forward to his trip to Australia since he is very anxious to obtain a first hand impression on the problem of inflation in the Commonwealth, about which he has heard so much, and on the measures being taken to bring inflation under control. Mr. Black expressed to me the fact that he was impressed with the courage shown by you in your budget presentation, both by your attributing the inflation as being "preponderantly of local origin" and by your budgeting for a sizeable counter-inflationary surplus."

See over

FORM No. 155
(3.50)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PRESS CLIPPING SHEET

ROUTING LIST	ROOM	FROM	COUNTRY	FILE
1.		DISPOSITION DESIRED		
2.		AFTER CIRCULATION, KEEP FOR		
3.		THREE MONTHS ☐	SOURCE Washington Post	
4.		INDEFINITELY ☐		
5.		IF NOT CHECKED ABOVE, CLIPPINGS WILL BE DISCARDED		
6. RESEARCH FILES	309	AFTER CIRCULATION.	DATE January 2, 1951	

Its Head Predicts

World Bank Faces Tough Issues in '52

The president of the International Bank for Reconstruction and Development sees his organization running head-on into two tough problems this year — problems that must be surmounted if the bank is to fulfill its optimum role.


Black

One is the difficulty of making loans in non-dollar currencies. The other is obtaining the right kind and amount of American equipment which foreign borrowers wish to buy with the proceeds of the loans.

With his fingers firmly crossed, World Bank President Eugene R. Black notes that in 1951 the bank was able to solve those problems. But the situation will be harder to deal with this year.

Special Division

The bank has set up a special division to deal with the second problem—obtaining for its foreign borrowers sufficiently high priorities to purchase the heavy American equipment they require to carry through the projects financed by the loans. So far it has been successful; the requisite equipment has been supplied to the foreign borrowers.

But as shortages increase in the United States, particularly in heavy goods, the problem of obtaining them for export abroad will increase, Black fears.

The second problem, lending with currencies other than dollars, was met successfully in 1951 in the first big loan of this kind, to Yugoslavia. The credit was extended entirely in European currencies, amounting to the equivalent of 28 million dollars.

Tough Persuasion

It was no secret, however, that the bank had a hard time persuading the countries whose currency was loaned to make their money available. And, as the defense effort bears down on them still more heavily this year, they will be less and less happy at the idea of extending credit.

Their reluctance is natural, Black concedes. If Britain, for example, makes a loan in pounds, it is in effect making "unrequited exports" for the time being in the amount of the loan. For the borrower uses the pounds to buy goods in Britain, goods which Britain in the interest of its own economic health would much rather use for home consumption or for sale in the export market.

Nevertheless, Black is convinced, if the bank is to operate at maximum effectiveness it must make more and more loans in currencies other than dollars.

The reason is that many would-be borrowers have already reached the limit of their ability to repay loans in dollars. They are already in debt up to the maximum point permitted by their prospect of future dollar earnings.

Credit Good Elsewhere

At the same time, however, those countries may be perfectly credit-worthy for loans in other currencies. Their pattern of trade may be such that they could readily repay further extensions of credit in pounds, francs, guilders, etc. Furthermore, many of those countries need developmental equipment which they can purchase as readily in Britain, France, Belgium, Switzerland, The Netherlands, etc., as in the United States.

For those nations, therefore, the sensible and economic and safe loans would be those in European currencies. The big question is, however, whether they will be as successful as Yugoslavia in obtaining such loans—or whether they will simply have to do without loan aid, because of a lack of lenders.

Theoretically, the foreign currencies to be used in such loans are already available to the bank, in the form of initial capital subscriptions to the organization paid by member countries in their own coinage. Before any nation's subscription can be used as a loan, however, the nation must give its permission. This may take no little persuasion this year.

No Half-Baked Loans

Black feels that the World Bank should lean over backwards to make dollar loans wherever the circumstances permit—that is to say, wherever the borrower has the ability, through future dollar earnings or dollar savings, to repay the borrowing. Even if the dollars are used to purchase equipment elsewhere than in the United Statse, the loan makes sense in that it contributes to an alleviation of the worldwide dollar shortage.

But he is insistent that the bank make no half-baked loan—a grant of money where the possibilities of repayment are doubtful. Such an act, he feels, cannot properly be termed a loan, and to give it that name is deceitful.

Above all, Black pleads, keep the distinction between grants and loans. If a nation stands in need of American aid, and if it is proper that such aid be given, let it come in the form of a loan only if the loan is sound, only if there are solid banking grounds for confidence that it will be repaid.

Otherwise, let the help be in the form of a grant, made with open eyes and without pretending that some day we will get the money back.

The World Bank, Black insists, "can take care of all its members' loan requirements." But when he says "loan," he means it. Other financial requirements of the member countries, not in the nature of bankable loans, are not the sort which the organization can, should or will undertake to meet.

Black is pleased with developments in the bank in the last year, particularly with the creation of what he terms "good banker-client relationships."

When the bank was first organized, he explains, members came with borrowing schemes so large as to be meaningless, not understanding what the bank was equipped to do and what it could not do. Now, he feels, there is mutual understanding and mutual confidence between the bank and the member countries.

Black foresees bank lending to the overseas territories of France, Britain and possibly Italy and Belgium during the next 12 months.

He also looks forward to a stepping up of activity in the West Indies, where a number of developmental projects may become ripe for financing.

On Coal Problem

If there is anything the bank can do to reduce the European coal problem, it stands ready, Black declares. But he admits that so far no feasible suggestions have been made on the role the bank might play in this tragic situation.

With the ratification of the Schuman Plan, however, the bank might perform some highly valuable services, the president believes. He sees no reason why it should not lend to an international authority just as well, if not better, than to individual countries. Accordingly, if the European coal and steel pact is accepted, Black hopes the bank will enter into a whole new field of lending activity, and one of mounting significance.