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Sept 1950
7:15 A.M. Panel Disc

From time to time the criticism has been heard of the Bank that it operates by applying commercial standards. Of course the Bank does not disregard prudent banking practices. But certainly the "profitability" of an enterprise is not a criterion which the Bank applies in every case, when making up its mind whether or not to engage in a particular operation. For example, one of the loans which the Bank is discussing at the moment is a loan to the Government of Ethiopia for a highway project. This will involve the importation into Ethiopia of a substantial amount of foreign road-building equipment, and that is a project that will certainly not pay out in direct earnings. The Bank wishes, however, to be satisfied in such circumstances that the project will indirectly make a contribution to the economy of the member state concerned. In the case of Ethiopia the Bank is satisfied on this score. Experts who know Ethiopia agree that the urgent need in that country is for the improvement of communications, and that, without some improvement in communications, there can be little progress in the country's economic development.

As regards interest rates, the Bank's practice is to charge borrowers what it would cost the Bank itself to replace, by borrowing, the funds which it lends, plus one per cent statutory commission which, under the Articles of Agreement, the Bank is obliged to charge, plus a small spread to meet the administrative expenses of the Bank and to enable the Bank to build up a reserve. As the Bank's credit standing has improved in the United States market, which, apart from Switzerland, is the only market where the Bank has, up to now, borrowed, the Bank has been able to pass on to its borrowers the benefit of the rates of interest which it pays on its own obligations. It is the intention of the Management and Board of the Bank to continue this policy of charging interest rates based on the rates that the Bank itself has to pay.

With regard to the commitment charge, it will be seen in the supplementary addendum issued with the Annual Report that the Executive Directors, on the recommendation of the Management, have recently decided that, in present circumstances, the commitment charge will be three-quarters of one per cent on all undisbursed amounts of a loan. This represents a very substantial reduction in the commitment charges hitherto in operation, and will apply to new loans which the Bank may make from now on and also to the undisbursed amounts of existing loans.

Those who are associated with the day-to-day working of the International Bank are fully aware that it is a new institution and still feeling its way. It is operating in a field where there are economic, social and political pitfalls which are something new in the history of international investment. It is only by a process of trial and error, by doing its best to avoid serious mistakes which might have serious consequences not only for the Bank's stockholders but also for its borrowers, and by altering its techniques from time to time to meet situations as they arise, that the Bank can really do the job for which it has been set up.

"DEVELOPMENT PROGRAMMING AND FINANCING"

L. B. RIST, Director, Economic Department

In dealing with the very concrete problem called the development of underdeveloped countries, the Bank's thinking has not been the result of a set of "a priori" views; it is really the outcome of the efforts which the Bank has made, in conjunction and cooperation with its borrowing members, to assimilate and interpret the practical policies and policy issues with which member countries were themselves confronted.

of India. The Indian railways loan has already been mentioned, but that was only a part of the financing which the Bank did in India.

The Government of India came to the Bank and stated that, after having studied the needs of their economy, they had come to the conclusion that the three most urgent necessities were, first, the removal of the transportation bottleneck, which involved some financing of the railways; secondly, some addition to the electric power resources of the Damodar Valley in Bihar and West Bengal—the most highly industrialized part of India; and, thirdly, increased food production. After some discussion with the Indian Government, the Bank was able to work out a series of loans designed to meet these three urgent priority needs.

Finally, one of the most recent loans which the Bank has made has been to Australia, where the Commonwealth Government was able to come to the Bank with a well-worked out five-year program, which involved the importation into the Commonwealth of large quantities of capital equipment for various sectors of Australia's economy. The Bank was able to work out with the Australian authorities the financing to meet that particular need.

Regarding the forms of financing which the Bank is prepared to undertake, the Bank has not hitherto found it possible in the normal case to depart from the field of financing the direct foreign exchange cost of projects or programs, but it is now engaged in discussions with the Italian Government which envisage participation by the Bank in the financing of a development program for Southern Italy. This program will be spread over ten years, and it will involve an investment of around \$100 million a year by the Italian authorities. The bulk of the equipment which is needed in connection with the various enterprises can be manufactured in Italy; but the impact of an investment program of that scale on the Italian economy is bound to create indirect foreign exchange costs by way of additional raw material for Italian industry and of consumer goods. The Bank has indicated to the Italian Government its willingness to consider financing a part of the indirect as well as the direct foreign exchange costs of that program.

Certain other developments also have taken place in the Bank's lending techniques. In a number of the Bank's less-developed member states, facilities are almost completely lacking for meeting the needs of private industry for long-term financing. There are many small enterprises which have either already been established or which are in the process of being established that need long-term capital and require machinery, for example, which is not available within the country and must be imported from abroad. These small enterprises have great difficulty in securing the funds that they need, and the Bank has assisted in working out in three member states, namely, Turkey, Ethiopia and Mexico, arrangements for the establishment of what might be called industrial credit facilities, that is to say, financing through finance corporations or private banks, which will themselves be able to make equity or loan investments in private enterprises on a long-term basis. In each case a substantial amount of local capital is being put up, and the Bank has indicated its willingness to match that local capital with a proportionate amount of foreign exchange. In that way the Bank believes that small private enterprises in its less-developed member states will be assisted and that it is more appropriate for such operations to be conducted by an organization established on the spot with local knowledge and techniques at its disposal. The Bank feels that such an organization is better placed to pass upon the propriety of investment in enterprises of this character than, for example, five or six members of the Bank's staff sitting around a table in Washington.

All these operations come within the Bank's definition of specific projects. In essence, the "specific project approach," in the Bank's view, means only that the Bank wants to know, with some reasonable degree of precision, the purposes for which the Bank funds are being used.

Every instance has confirmed the Bank's impression that each country has problems different from those of its neighbors. There are, however, some quite general conclusions which may apply to most underdeveloped countries.

The first experience the Bank has had in this field was requests for loans for various specific projects. It happened that when Mexico requested financing of hydroelectric power, or when Salvador suggested that it wished to start an important power development, or when Chile asked the Bank to support both power and agricultural development, it was clear from the outset that these purposes were well-founded. These were bottlenecks and the projects were essential and urgent. As time went on, as the Bank's experience developed, as its relationship with its borrowers continued over a period of years, and as the inevitable limitations on their borrowing power became apparent, it was natural that the question of choice should become more and more imperative. It is important that there should be no waste of capital, not only from the internal point of view, but also from the point of view of available foreign credits, and the Bank must ensure that it assists really important development and investment. As a matter of fact, it may be said that to the extent that the Bank finances one operation other operations become possible. In other words, it can even be said that the Bank does not finance exclusively what it seems to be financing. "Substitution" widens the effects of the Bank's loans beyond the project actually financed. It is important, therefore, that both the borrower and the Bank should have a broader knowledge of what is going on in a given country than study of the actual project alone would convey. It is not enough to deal with projects in the narrow sense of the word.

A logical treatment of this subjects falls under three headings :

- (a) the necessity for programming in the development field ;
- (b) the problems that the Bank's borrowers are encountering in determining priorities ;
and
- (c) the role which international investment can play in the field.

The basis of the need for development programming is the fact that development is a continuous process. It started long before the Bank, and it will continue after the Bank. International financing and development has also been a continuous process. The Bank can, therefore, not pretend, and does not pretend, to do more than assist and sometimes hasten the process which would be carried out in some form anyway, though perhaps at a different pace, without the Bank. However, though the effect of the Bank's action might be marginal, it does, because of the substitution principle, spread over the entire investment field.

The investments involved include both public and private investments. Governments have power over their own public investments, but they have not the same power so far as private investment is concerned and often the aggregate of private investment that goes on is greater. Therefore, it is impossible to expect a detailed plan on the part of any government. However, the relative importance of what is going on in the fields of public investment and of private investment is obviously one of the major questions. However restrained a government may be with regard to the activities of private business, it is indisputable that its influence on the developments taking place in connection with private financing is considerable. Governments influence even the private sector of investments by credit and taxation policies, by customs duties or trade restrictions, if not also by direct allocations. Moreover, the very investments (and this is fundamental) which a government undertakes on its own, whether they are transportation, public utility, land reclamation or education, have a direct bearing on the productivity of labor and on the fields which private investment may be induced to enter.

Since, therefore, there is a close relationship between the investments which are being undertaken at any given time ; since there is always some investment—public or private—

going on; since, however, the resources which can be deflected from current consumption for investment purposes, that is, for future production and consumption, are always limited; it is important for any government, before undertaking a new investment, to gain a view of the general direction in which resources are being used in its own territory and to decide on the course that would be the most desirable for the country as a whole.

The purpose of programming would, therefore, be in broad terms to determine not a precise plan, but a framework indicating the main directions in which investment should go. This involves, first, a determination of the fields where the greatest possibilities exist for a country, under given world conditions. This means, in effect, a serious inventory of existing resources, natural and human, and a judgment as to which are worth developing. A number of countries are now proceeding with that particular task which had never before been undertaken on a broad basis. This entails judgment as to which resources are worth developing, taking into account the fact that a new product will not automatically find a good market, internally and externally. This also involves a determination of the investments which should be expected to take advantage of these resources.

Another purpose of programming is to determine which public investments are the most likely to bring about development of such resources and induce private investments. That matter must also be considered in relation to priorities and often overlaps with the well-known problem of "bottlenecks." Thus, lack of transportation or power is sometimes the only obstacle to private investment, new industries, new mines, and so on.

The third purpose of programming is to determine what policies are most likely to induce investment generally (and private investment in particular) and to attract it into fields which a government considers the most likely to be profitable to the country in the long run. This raises the whole complex question of financial equilibrium and fiscal policy, the effect of taxation, acting either as a stimulant or as a deterrent, and also the necessity for a clear attitude towards foreign private capital if its contribution is hoped for or expected.

The achievement of financial equilibrium is probably the most difficult part of any program and there are no ready-made solutions applicable to any two nations. Social, historical, and administrative elements have to be taken into account, and also the psychological as well as the economic reactions of citizens and of foreign investors.

These being the three main purposes, it is clear that a set of conclusions will be reached, but it is most likely that in any such appraisal it will appear quickly that the hopes and ambitions of any nation cannot be all fulfilled at once. There are severe limitations on what can be achieved. In real terms they can best be stated as follows. Manpower—especially skilled labor—as limited in any country and has to be adjusted to the new industries or operations involved. Even more important is the real extent of economic resources, that is, the yearly production of goods. Only a fraction of the yearly production can be devoted to investment, and it would seem to be an almost regular occurrence that if national income per head is low the proportion needed for subsistence, that is to say, consumption, is usually high, and the capacity to save for investment is correspondingly low on the average.

This shortage is expressed in financial terms by the words "lack of savings" or "shortage of capital," that is to say, insufficient funds not used for immediate consumption purposes. The temptation is, therefore, great in countries faced with an urgent need for investment (whether for reconstruction or development), to finance investment through deficit or credit expansion, eventually possibly through inflation. In the end, this entails either rationing or a rise in consumer prices and thereby creates a reduction in real consumption. If the investment program is to find a means by which investment can go on without reducing consumption,

the financial problem is no more than an expression in monetary terms of a shortage of overall resources. A country then has the choice between slowing down investment and slowing down consumption, which can be assumed to be already low in an under-developed country; or calling on outside resources, that is to say, foreign financing.

By definition, foreign financing can only provide a marginal amount. It is called upon to add to domestic resources to hasten development without reduction of consumption levels. Any reasonable programming should, therefore, add to the three purposes mentioned above, a fourth, which is perhaps basic to all, and that is, the determination of the pace at which development can proceed; first, without foreign assistance, and secondly, with foreign assistance, in varying degrees, without depressing existing consumption standards.

The rate or pace of development in turn depends on the types of investment that are being carried out, and this is the old problem of priorities. It comes up because everything cannot be done at once, and because the available additional foreign resources are limited by credit-worthiness. Any reasonable programming will therefore be faced with alternatives. It is not possible to state ready-made solutions, but some of the issues which require decision and some of the practical questions with which both the Bank's borrowers and the Bank's general survey missions have been faced can be indicated.

The first is "What choice can be made between the various public works, transportation, power, etc., assuming that private enterprise cannot assume their burden?" This is not necessarily an absolute choice. It does not mean that, whether transportation is to be undertaken, there will not be any room for further power. The question is really: how much power will be necessary at the time when transportation will allow for more production. This question is a practical one and can only be adjusted on the spot by comparing the needs of the people in the nation itself.

The second question which arises more and more frequently is, "Should the government encourage capital intensive (heavy) rather than labor intensive (light) industry?" The so-called heavy industries—industries which need a great deal of capital for fewer workers (such as breweries or steel mills)—may in certain cases be quite strategic. The history of some cities' growth shows that they have often been built around a heavy industry of this type. It is difficult, however, to visualize that this could go very far in countries which are overpopulated and do not have very large resources available. The choice between encouraging heavy or light industry is one which will come up in every case.

The third question which will arise will be the necessity to use local resources fully. It is certainly more profitable, in the long run, to build new investments on existing resources of the country than on the transformation of imported goods, which would rely purely on cost of labor and on skills which in turn would have to be built up. Some under-developed countries face this possibility and are considering, for example, carrying the mining process a step beyond the exporting of ore. This is a particularly critical problem in the case of agriculture. There, the choice between new irrigation, for example, and the improvement in efficiency of existing agricultural operations, merely by adding a few machines or tools or by improving existing methods and the means of transportation, will arise very often. There again heavy costs and the extent of the benefit to be expected from each solution must be weighed carefully.

The fourth question is: "Is it really advisable to induce new investment into fields which may be profitable only for a short time?" It may be that a sudden rise in the prices of certain goods may make new industries particularly attractive but in the long run this rise may not be maintained. Similarly it is possible that, because of quantitative restrictions or high tariffs—mostly quantitative restrictions—new industries become profitable in a country. How-

ever, these restrictions may not be maintained very long. In a number of under-developed countries the government itself has become slowly apprehensive of the excessive opportunity for profitable business which quantitative restrictions have brought about. Whether such investment should be induced at the expense of others is a grave policy issue for any country, since in a way it commits its future trade policy.

There is one last question, and by far not the least, and that is the relationship between the types of investment to be encouraged and the balance of payments. It has been assumed at the outset that the purpose of any development is to improve, in the end, the standard of living in the country and that this could best be done by increased investment. However, it is not enough to increase production by relying on foreign resources. It is important that the servicing of this investment be made possible. It is not necessary to establish a close relationship between an individual investment itself and its foreign exchange proceeds, but it is important that the investment program as a whole should, in the end, not only benefit internal production but also, to an extent, ultimately benefit the balance of payments. It is not possible to over-emphasize the fact that increased national income and improvement in balance of payments are not synonymous. The necessity to balance, in any investment program, its effect on production and its effect on the balance of payments is fundamental. The immediate effect of an increased investment program on the balance of payments is a deficit. It may even be said, with only slight exaggeration, that the definition of a development loan, from the International Bank point of view, would be one where the borrowing member could voluntarily be prepared to incur a deficit on its balance of payments in order to satisfy its investment needs. This may go on for a number of years, and it may go on for a series of projects, but it is quite important that in the end the resulting benefit in the aggregate should favorably affect the balance of payments as well as over-all production.

In short, the main purpose of any investment program is, as has been assumed, to increase the standard of living, but in order that this may be realized it is necessary that the program be balanced. Balanced development would be development which does not endanger financial equilibrium; which does not entail depressing consumption from its existing level; which efficiently carries out several purposes at once and does not merely benefit one field at the expense of others; which achieves the desired results without overburdening the government by its cost; which looks several years ahead, and not merely in short periods takes advantage of temporary market conditions, prices or restrictions; and finally, which gives proper attention to the need for improving the balance of payments at the same time as to the need for increased production.

It is hardly necessary now to come back to the last point, which is the role of foreign financing. As has often been stated elsewhere, private direct investment supplies not only capital but also "know-how," technicians and the practical operations for a period of training. What the International Bank or any external loan financing can provide, in addition to capital, is technical assistance to a degree. The choices which remain will be for the governments to make, but the rate at which countries will require loans and the term for which they will require foreign assistance will derive from adequate development programming.

There are no simple solutions to these problems, but they have to be met in the under-developed countries, and they are important to the Bank. The practical result, from the operational point of view, is that, in considering the capacity to borrow of the Bank's development borrowers, the Bank does not take a static view of their balance of payments but a dynamic view which takes into account not only their existing economic structure, but their economic structure as it might be after the program has had time to bear its fruits.

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BANQUE INTERNATIONALE POUR LA RECONSTRUCTION
ET LE DEVELOPPEMENT

CONFERENCE PRONONCEE DEVANT LA
SOCIETE D'ECONOMIE POLITIQUE DE Z U R I C H

le 27 Septembre 1950

par M. Léonard B. RIST,
Directeur du Département Economique

Monsieur le Président, Messieurs,

C'est pour moi un honneur et un plaisir d'avoir été appelé à parler devant vous aujourd'hui. Lorsqu'il y a plus de trente ans j'étais un élève un peu rebelle au bord du lac de Zurich, dans le canton de St Gall, et que je parlais "Schwyzer Duetsch" comme un vieux Senn, je ne me doutais pas que je reviendrais dans votre belle ville, si paisible, vous apporter l'écho des problèmes économiques que posent au monde non seulement la reconstruction d'après guerre, mais l'éveil des peuples sous développés qui sera un des traits marquants du XXe siècle. L'aspect sous lequel, à la Banque Internationale, nous envisageons ces

problèmes, est l'aspect financier.

Pendant tout le XIXe siècle et entre les deux guerres, les transferts de capitaux entraînés par les mobiles si forts et si persistants de l'initiative individuelle et du profit, ont rendu des services que l'on n'a jamais appréciés suffisamment. Si, par la masse des fonds mis en mouvement, l'Angleterre et la France d'abord, puis plus récemment les Etats-Unis, ont occupé le premier rang, des pays plus petits mais prospères et animés d'un esprit international très agissant, n'en ont pas moins joué un rôle de première importance. Je pense à la Belgique, je pense surtout à la Hollande et à la Suisse.

Il serait un peu vain d'exposer à un auditoire helvétique les problèmes que pose le financement international : votre expérience dans ce domaine est multiple, ancienne et votre pays n'a pas perdu, loin de là, son intérêt pour ce genre d'opérations. Les émissions étrangères admises à vos Bourses depuis la guerre, les crédits accordés par vos Banques à d'autres pays, démontrent que votre intérêt est toujours aussi vivace.

Mais la crise de 1930 déjà, et la seconde guerre mondiale plus récemment, ont révélé que les

éléments de risque que comportent les opérations de financement international n'étaient pas aisés à juger à leur juste mesure. Il est naturel qu'à une époque où dans la plupart des pays les transferts de capitaux, et même parfois le transfert du service des capitaux étrangers investis sur le territoire, sont soumis à contrôle, à une époque où les chances de conflit - armé ou non - ne paraissent pas aussi éloignées qu'après la première guerre, le capitaliste privé hésite à s'engager seul, sauf dans les domaines où la prospérité et la paix semblent le mieux assurées. Dès avant la fin de la guerre, ceux qui s'efforçaient d'imaginer les problèmes de la paix, se rendirent compte que si les besoins seraient immenses, l'économie privée ne pourrait probablement pas les satisfaire et qu'il serait injuste et inefficace de la contraindre à prendre des risques qu'elle même n'estimait pas justifiés. De là naquit le concept de la Banque Internationale, fondée à Bretton Woods par les accords de 1944, et dont le Conseil se réunit pour la première fois en Mai 1946 à Washington.

Les idées fondamentales en sont au nombre de deux : En premier lieu, s'il faut faire face à des besoins de capitaux à long terme et que les sources traditionnelles, le marché financier et les banques,

ne soient pas en mesure de fournir les fonds à des conditions "raisonnables", les gouvernements des pays créanciers ou désireux d'exporter des capitaux peuvent se substituer à l'initiative privée défail-
lante. Une coopérative de nations où chacune souscrit une fraction du capital est ainsi constituée. Les 49 pays qui composent maintenant la Banque ont mis à sa disposition en espèces ou en titres à vue, ce qui revient au même, une somme de \$1,667,7 millions, soit 20% de leur souscription totale. Sur ce montant une somme de \$1.500,9 millions (soit 18%) a été versée en monnaie nationale et le solde, \$166,8 millions (ou 2%) en dollars ou en or. Comme la souscription des Etats-Unis est entièrement en dollars, le montant du capital liquide, purement en dollars ou or, de la Banque atteint au total \$733,9 millions. Le reste, soit l'équivalent de \$933,8 millions est libellé dans les monnaies respectives de chacun des pays membres. Il est intéressant de noter que, dès cette époque, on prévoyait que de nombreux pays ne désire-
raient pas encourager les exportations de capitaux alors qu'il en importaient eux-mêmes pour les besoins de leur reconstruction ; aussi une clause fut-elle insérée d'après laquelle l'utilisation des souscrip-
tions en monnaie nationale est soumise à l'autorisation

du pays dont la Banque désire prêter la monnaie. Les Etats-Unis nous ont donné une autorisation générale concernant la totalité de leur souscription espèces ; dix-neuf autres pays nous ont donné, parfois sous réserves, des autorisations totales ou partielles.

Mais ceci n'est qu'un des éléments du concept que je tente de vous décrire. Si la Banque n'avait à sa disposition que les souscriptions espèces des gouvernements, ses opérations risqueraient d'être limitées au montant de ces souscriptions espèces et en outre de revêtir à la longue ce caractère un peu aisé que l'on a souvent reproché aux organismes purement gouvernementaux. La deuxième partie du concept fondamental est donc aussi importante que la première : la Banque a été autorisée à emprunter sur les marchés financiers un montant représentant quatre fois les souscriptions en espèces dont j'ai parlé plus haut, et pour assurer aux souscripteurs privés que le crédit de l'institution resterait toujours très élevé, les Etats contractants accordent d'emblée à la Banque l'assurance qu'ils couvriront ses obligations jusqu'à un montant égal à quatre fois leur souscription espèces. Cette garantie indirecte est exigible dans n'importe quelle monnaie et non pas seulement dans la monnaie du pays souscripteur, mais son montant n'est disponible que pour couvrir

les obligations propres de la Banque, si elle ne peut y faire face par ses moyens courants.

En résumé, le capital de la Banque se compose donc aujourd'hui d'un montant total de \$8.338,5 millions. Sur ce montant 80% représentent l'engagement de garantie dont je viens de parler, 2% la souscription espèces de tous les Etats en or ou en dollars et 18% la souscription en espèces en monnaies individuelles que la Banque peut utiliser si elle obtient l'accord de l'Etat souscripteur.

Dans ces conditions, quels sont les fonds que la Banque a à sa disposition pour ses opérations ?
Au 30 Août 1950, ses ressources s'établissaient ainsi :

	<u>en millions de \$ U.S.A.</u>
Souscription espèces de 2%.....	162,5
Souscription de 18% des Etats-Unis..	571,5
Montant disponible de la souscription de 18% des autres pays membres.....	17,5
	<hr/>
Montant total du capital souscrit disponible.....	751,5
Montant net disponible des bénéficiaires accumulés.....	29,5
Fonds provenant de la vente d'obli- gations.....	260,6 (1)
	<hr/>
Total général des fonds disponibles.....	1.041,6

(1) dont 10,6 millions émis en Suisse.

Dorénavant la Banque, pour augmenter ses ressources, devra les retirer soit de l'utilisation plus large du 18% de souscription des pays non dollar, soit de ses futurs bénéfices, soit enfin d'émissions d'obligations.

Une ressource supplémentaire lui reste qui, jusqu'à présent, n'a pas joué un rôle considérable mais qui peut se développer. C'est la vente par la Banque des obligations que lui ont remises ses débiteurs et qu'elle possède en portefeuille. Jusqu'à présent, un montant de 25,6 millions de dollars d'obligations hollandaises et belges a été ainsi cédé au marché avec la garantie de la Banque Internationale. Il est probable que de nouvelles cessions pourront avoir lieu et il n'est pas invraisemblable que dans certains cas les acheteurs éventuels acceptent ces titres sans la garantie de la Banque Internationale. Dans la mesure où la Banque a pour but de ranimer le marché des placements à l'étranger, ce type d'opérations entre directement dans ses fonctions et devrait constituer, si nos espoirs se réalisent, un stimulant précieux aux mouvements de capitaux spontanés.

En vous énumérant les ressources dont la Banque peut disposer pour ses prêts, j'y ai compris

les bénéfices accumulés, mais je n'y ai pas compris une réserve, dite "spéciale", de près de 15 millions de dollars, qui mérite une mention particulière.

Les statuts de la Banque lui imposent l'obligation de prélever sur le service de ses prêts une commission spéciale qu'elle est libre de fixer entre 1 et 1 1/2 % par an. Cette commission doit s'accumuler dans le fonds de réserve spéciale dont j'ai parlé et être placée de manière à être toujours disponible pour couvrir les pertes éventuelles que la Banque pourrait encourir sur son portefeuille.

En pratique, la commission prélevée est de 1% ; elle s'ajoute à l'intérêt payable par le débiteur. C'est peut-être ici le lieu de dire un mot du mode de calcul adopté dans la fixation des taux appliqués à nos prêts. La Banque n'a pas jugé possible de faire des discriminations entre ses emprunteurs en ce qui concerne le taux d'intérêt. Ce taux est calculé pour chaque nouveau prêt de la manière suivante : nous connaissons le prix auquel nos obligations sont cotées, les échéances en sont suffisamment variées pour donner à la Banque une idée précise du prix auquel elle pourrait se procurer des fonds pour une période comparable à celle que devra couvrir le prêt auquel elle consent. Une

légère marge, de l'ordre de $1/4$ % y est ajoutée pour contribuer aux frais de la Banque et la commission spéciale de 1% s'ajoute en sus. Il en résulte que les derniers prêts que nous avons consentis portent des taux d'intérêt, commission comprise, variant de $3\ 1/2$ à $4\ 1/2$ % selon leur échéance.

Nous vous avons indiqué quelles étaient nos ressources présentes et à venir et comment étaient établies les conditions financières auxquelles nous accordons les crédits. Voyons maintenant quelles sont les opérations de prêt que la Banque a entreprises.

Le total des contrats signés par la Banque s'élève actuellement à 973 millions de dollars dont il faut défalquer environ 12 millions d'annulations sur la demande des débiteurs eux-mêmes, environ 8 millions de remboursement. Le total des prêts existants s'élève par conséquent à 953 millions de dollars. Tels sont les chiffres ; ils sont importants si l'on considère qu'ils constituent le résultat de quatre ans d'activité et que, normalement, ils doivent aller en s'amplifiant.

Je voudrais maintenant, si vous me le permettez, vous exposer plus en détail pour quelles raisons nous avons accordé les prêts dont j'ai parlé et quels sont les éléments que nous prenons en

considération lorsque les contrats sont passés.

La Banque Internationale a ceci de particulier qu'en fait elle doit garder le risque des prêts qu'elle accorde pendant toute la durée de l'emprunt jusqu'à son échéance finale. Même si elle parvient à vendre les obligations contenues dans son portefeuille sans sa propre garantie, elle restera, comme tout banquier conscient de ses devoirs, et peut-être même plus encore, moralement intéressée à ce que les porteurs reçoivent les intérêts et le principal qui leur sont dûs aux échéances fixées.

Vous aurez compris, lorsque tout à l'heure je vous exposais le concept fondamental de la Banque, qu'il tient compte de deux éléments : d'une part les besoins en capitaux et d'autre part le fait que leur source est limitée. Pour pouvoir accorder ses prêts, elle doit faire appel au crédit privé. En conséquence, et tout naturellement, elle doit veiller à la fois aux intérêts de ses débiteurs éventuels et à la sécurité des capitalistes qui lui fournissent ses moyens d'action, ainsi que des Etats membres qui en sont les garants. C'est pourquoi, lorsqu'une demande d'emprunt nous est présentée, sommes-nous tous de considérer surtout trois questions : 1) Dans quelle mesure la nation emprunteuse a-t-elle vraiment besoin

d'un emprunt ? 2) le produit en sera-t-il utilisé à des fins productives ? et 3) pouvons-nous raisonnablement escompter que le service sera effectué régulièrement ?

Permettez-moi de reprendre ces questions une à une.

La Banque ne cherchera jamais à pousser un Etat à emprunter en devises étrangères. Elle considère que c'est là un recours à un moyen extraordinaire qui ne se justifie qu'au cas où les autres moyens feraient défaut. Elle n'a pas le droit non plus - et ses statuts sont formels sur ce point - de prêter lorsque d'autres sources de fonds sont accessibles à des conditions "raisonnables", ce qui veut dire qu'elle ne se mettra jamais en compétition avec le marché privé dont, au contraire, elle cherche à développer l'activité. La notion de besoin s'identifie alors avec les intérêts du pays emprunteur. C'est là une des raisons pour lesquelles nous examinons avec soin les politiques financières et économiques suivies par les pays membres avec l'espoir de déceler si par des moyens moins onéreux que l'emprunt extérieur ces derniers ne pourraient pas arriver à leurs fins.

Il convient de noter à cet égard un fait qui n'est pas sans importance : nous finançons les besoins en devises étrangères, c'est-à-dire en général un déficit de la balance des paiements des pays emprunteurs. L'une des grandes différences que l'on peut établir du point de vue du recours à l'emprunt entre les pays évolués et les pays dits sous développés, c'est que chez les premiers un équilibre de la balance courante était considéré, avant le désastre de la guerre, comme normal et que le recours à l'emprunt extérieur correspond au désir de couvrir un déficit temporaire dû à des mouvements accidentels soit des prix, soit des capitaux. C'est dans cet esprit que la Suisse elle-même eut recours, entre 1919 et 1930, à trois emprunts extérieurs, qu'elle remboursa d'ailleurs au bout de peu de temps, soit à l'échéance, soit largement en avance de leur échéance finale. C'est dans cet esprit également que les grands emprunts français et belges des périodes de stabilisation après la première guerre furent émis. Les emprunts de reconstruction d'après cette guerre, et surtout les emprunts des pays sous développés correspondent à la nécessité de couvrir un déficit que l'on pourrait appeler volontaire dans la balance des paiements. Les plans de reconstruction doivent, on l'espère, permettre le rétablissement d'un

équilibre, dans une période limitée ; pour ce qui est des pays sous développés, il leur faudra progresser de palier en palier, mais nous devons admettre comme naturel que les besoins d'investissement entraînent chez eux un déficit s'étendant sur une période d'années et nous ne devons pas nous choquer de ce que, pour financer un déficit ainsi volontairement accepté, ils aient recours à l'assistance extérieure.

J'ai dit que les pays sous développés pouvaient légitimement envisager un déficit dans leur balance des payments pour couvrir - en partie - leurs besoins de développement. Il est peut-être bon de rappeler que l'aide extérieure n'est pas le seul moyen de financement des investissements nécessaires au progrès de la production. On peut imaginer un pays qui tirerait de ses propres ressources les moyens d'effectuer les investissements désirés. La Russie soviétique en est un exemple frappant. Elle a procédé entre les deux guerres à une industrialisation considérable sans recours à l'aide extérieure. Mais à quel prix ? Le montant des ressources annuellement disponible à l'intérieur d'un Etat est limité. Si une fraction plus grande doit en être affectée à l'investissement, une fraction plus petite sera disponible pour les consommateurs.

C'est donc en réduisant le niveau de vie actuel de la population que l'Etat peut investir plus. Le problème économique des pays sous développés dans le monde libéral consiste à accroître leurs moyens de production et leur productivité sans réduire le niveau de vie de leur population, déjà dangereusement bas. Aussi cherchent-ils à accroître l'ensemble des ressources disponibles en recevant des capitaux de l'extérieur, et à éviter ainsi de comprimer la fraction de leurs ressources qui va aux consommateurs.

Ceci nous amène à la deuxième question, à savoir que la Banque ne peut prêter que pour des fins productives. Si nous pouvons trouver naturel qu'un pays sous développé envisage sans trop d'angoisse une rupture de l'équilibre de sa balance des comptes pour une période limitée, c'est que nous postulons que pendant cette période les investissements s'accroîtront, que la production sera accélérée et qu'à la fin de la période le même Etat se retrouvera avec un revenu national accru et une balance des comptes mieux assurée (car il est indispensable de lier l'un à l'autre) et que, par conséquent, la charge de la dette extérieure sera compensée par l'amélioration de la structure économique générale. Il ne serait pas raisonnable que la Banque acceptât

de financer purement et simplement une augmentation du niveau de la consommation. Si cette augmentation était fondée seulement sur l'assistance extérieure et n'était pas accompagnée d'un accroissement de la production et de meilleures perspectives de la balance des comptes courante, l'Etat emprunteur se trouverait, après avoir épuisé les fonds d'emprunt, dans la situation même qui l'a poussé à recourir à l'étranger.

Je ne veux pas entrer ici dans tous les détails des problèmes que pose pour nous cette question d'investissement productif. Qu'il me suffise d'indiquer que la notion d'investissement productif a été interprétée par la Banque de façon assez large. Pour la France et la Hollande, les deux premiers emprunts consentis par la Banque, il s'agissait de reconstituer des stocks et de maintenir un courant normal d'importations non seulement de machines mais même de matières premières pour permettre à la production de continuer et de s'accroître à un moment donné. Pour la plupart des autres pays, il s'agissait d'équipements industriels proprement dits, en particulier de ceux qui permettraient d'éliminer les obstacles évidents à une expansion possible. Les locomotives envoyées aux Indes ont permis d'accélérer considérablement le

rythme des transports, y compris les transports d'exportation. Il en va de même de l'équipement portuaire que nous avons accepté de financer en Turquie ou des routes dont nous assurons la réfection en Ethiopie. La production électrique que nous avons financée très largement au Mexique, au Brésil, en Uruguay, au Salvador, aux Indes, en Belgique, au Chili, doit permettre de faire face aux besoins existants et d'encourager de nouvelles industries à s'établir. L'équipement agricole que nous avons financé au Chili, en Colombie et aux Indes, ou les entrepôts que nous finançons en Turquie, doivent améliorer la quantité et la qualité des produits agricoles qui sont la richesse de ces pays. Dans certains cas, les ouvrages financés peuvent avoir pour effet d'éviter des pertes plutôt que d'accroître immédiatement des revenus. C'est ainsi que le barrage sur le Tigre que nous finançons en Iraq doit mettre fin aux inondations périodiques qui sont un désastre pour la ville de Bagdad et les campagnes environnantes.

Un problème très intéressant se pose à cet égard de plus en plus fréquemment. Dans les cas que je viens de citer, l'urgence de ces dépenses est apparente, mais la plupart des pays sous développés ambitionnent, et très naturellement, d'accroître

leur outillage dans des branches très variées et comme leur capacité d'emprunt n'est pas illimitée, il leur faut aller au plus pressé en premier lieu. La détermination de ces priorités n'est pas une tâche aisée. Parfois les gouvernements eux-mêmes en sont parfaitement avertis, parfois nous avons eu à en discuter longuement avec eux, parfois enfin ils nous ont demandé de recruter pour eux des missions générales dont l'un des objets était précisément d'établir l'ordre de priorité entre les divers investissements dont ils éprouvaient le besoin. Cette tâche particulière retient de plus en plus notre attention et nous avons la conviction qu'en nous y prêtant volontiers nous leur rendons un service au moins aussi grand, sinon plus, qu'en mettant à leur disposition des moyens de financement.

Un dernier commentaire sur ces problèmes de production: j'ai parlé jusqu'à présent comme si nous ne faisons des prêts qu'à des gouvernements. Il est exact, et ceci est une des exigences de nos statuts, que nous ne pouvons prêter qu'avec la garantie des gouvernements, mais rien ne nous empêche - et nous l'avons déjà fait à plusieurs reprises - de prêter directement à une entreprise privée à condition que nous obtenions la garantie de son gouvernement. C'est ainsi que nous avons mis 75 millions de dollars à la disposition de la Brazilian Traction par un emprunt

garanti par les Etats Unis du Brésil, et c'est ainsi que nous avons mis 26 millions de dollars à la disposition de la Mexican Light and Power sous la garantie du gouvernement mexicain. Quatre sociétés de navigation hollandaises, sous la garantie de leur gouvernement, ont reçu les fonds nécessaires à l'achat des navires de haute mer dont elles avaient besoin. Dans d'autres cas, c'est le gouvernement emprunteur qui a mis les fonds à la disposition de son industrie privée. Ainsi le gouvernement belge a donné les 16 millions de dollars que nous lui avons accordés à la Société Nationale pour le Crédit à l'Industrie qui, à son tour, les a rétrocédés à trois entreprises privées belges. C'est ainsi que la Herstelbank de Hollande a reçu de nous 15 millions de dollars qu'elle a rétrocédés à des emprunteurs privés.

Mais la Banque ne s'en est pas tenue là. Nous avons cherché à encourager les entreprises de financement qui pourraient attirer et distribuer sur place des fonds privés. En Turquie, une banque nouvelle vient d'être fondée par des intérêts privés pour l'expansion ou la création d'entreprises privées: nous lui avons promis notre appui pour ses besoins de change. Le Président des Etats Unis du Mexique a récemment indiqué qu'il serait heureux si les banques mexicaines prenaient avantage des dispositions favorables de la Banque Internationale pour répartir

au bénéfice d'emprunteurs privés des fonds que nous mettrions à la disposition d'un groupe de banques. En Ethiopie, enfin, tout récemment, la fondation d'une banque établie sur le modèle de la banque industrielle turque, vient d'être décidée. Ici le fondateur sera l'Etat, mais les bénéficiaires de ces prêts seront des entreprises privées. Là encore, nous donnerons notre appui pour les besoins de financement extérieur.

Je crois, Messieurs, que cette longue énumération suffit à vous montrer que la variété des opérations que la Banque Internationale peut entreprendre est considérable. Encore n'ai-je pas mentionné certaines opérations à court terme, comme les deux prêts, modestes d'ailleurs, que nous avons consentis pour une période de deux ans à la Finlande et à la Yougoslavie pour leur permettre d'acheter l'outillage qui en très peu de temps devrait augmenter leur production de bois et par là même leurs exportations, dans des proportions sensibles.

Ainsi la forme que peut prendre notre assistance est aussi variée que les objets auxquels elle peut être consacrée. Reste à en déterminer le montant. C'est le problème angoissant du crédit et il n'est pas grand'chose que l'on puisse enseigner à un auditoire comme celui-ci dans ce domaine. Les risques que nous sommes appelés à prendre sont, par définition, ceux que le marché privé ne peut assumer. Ceci ne veut

pas dire que nous soyons prêts à les assumer tous et bien souvent on a dit que la Banque Internationale - et certains même le lui ont reproché - était fort sévère dans l'appréciation de la capacité de remboursement des nations emprunteuses. C'est qu'ici l'autre base fondamentale de notre action vient à jouer: nous devons nous assurer - et nos statuts nous le prescrivent - que les chances de remboursement sont "raisonnables", et ceci dépend de toute une série d'éléments. L'un d'entre eux sera évidemment d'ordre psychologique ou historique: comment le pays débiteur a-t-il traité ses créanciers dans le passé? comment les traite-t-il aujourd'hui? A chaque instant nous avons rappelé à nos débiteurs éventuels que leur crédit extérieur dépendait dans une large mesure de leurs rapports avec leurs obligataires étrangers et que nous ne pouvions pas ignorer les défaillances qui, généralement explicables lorsqu'elles se sont produites, doivent être effacées avec toute la hâte possible.

Un deuxième élément psychologique entre en jeu également: ce sont les chances de voir une politique financière, commerciale et d'investissement, qui par définition est à la base de la demande d'emprunt, persister assez longtemps pour que l'emprunt puisse donner tout son bénéfice. Il ne suffit pas, comme nous le faisons chaque fois, de nous assurer que les travaux

seront menés à bien sans délai, encore faut-il que les bénéfices indirects que la nation en escompte puissent être recueillis en temps utile, et qu'une crise sociale ou financière ne vienne pas bouleverser l'équilibre.

Mais il y a également des problèmes de fait : nous avons dit que nous trouvions naturel qu'une nation en cours de développement accepte pour s'équiper un déficit dans sa balance des comptes, mais si ce déficit est dû à sa politique financière ou commerciale, ou parfois même à une politique d'investissements exagérés, les avantages qu'un prêt extérieur peut présenter ne deviennent plus que des palliatifs et c'est à l'étude de cette politique financière et commerciale que nous consacrons nos plus grands efforts.

Il convient d'ajouter que le programme d'investissement lui-même dont les projets financés par nous font partie, a précisément pour but de modifier la structure économique du pays en cause. Il ne suffit donc pas de prolonger dans l'avenir les courbes du passé, - les incertitudes des grands marchés suffiraient à rendre une telle prédiction vaine, - mais il faut tâcher d'imaginer quelles seront les possibilités de production et d'équilibre extérieur - je ne veux jamais séparer les deux - une fois achevé le programme d'investissement dont nous finançons une partie. Nous sommes parfaitement conscients que dans bien des cas l'emprunt qui nous a été demandé n'achève pas définitivement la tâche

désirée. Bien souvent nous avons le sentiment que nous ne consentons pas d'un seul coup tous les crédits possibles à notre emprunteur et que nous accomplissons un premier pas qui sera suivi d'autres prêts au fur et à mesure que les besoins seront démontrés et que le rendement des premiers commencera à se manifester. C'est une des tâches les plus délicates que de convaincre nos débiteurs éventuels qu'ils n'ont pas intérêt à accumuler rapidement une dette extérieure considérable, mais que cette dernière portera des fruits autrement profitables si elle s'accroît lentement, à un rythme que peut supporter et la production intérieure et l'équilibre extérieur.

Avant de conclure, je voudrais signaler une difficulté particulière propre à notre époque. La plupart de nos emprunteurs nous ont demandé des dollars. En l'absence de convertibilité des autres monnaies, nous avons dû juger plus sévèrement leurs perspectives de remboursement que nous ne l'aurions fait avant guerre. C'est leur capacité de gagner des devises fortes et non pas seulement leur chance de rétablir l'équilibre de leur balance des comptes globale que nous devons étudier. Il est certain que ceci a agi comme un frein dans bien des cas et c'est la raison pour laquelle la Banque a tant insisté pour obtenir de ses actionnaires autres que les Etats Unis la

libération progressive de leur souscription en espèces dite de 18%. Ainsi que je l'ai indiqué plus haut, plusieurs pays ont consenti, dans une mesure plus ou moins large, à ce que la Banque utilise ces fonds. Jusqu'à présent, environ 17,5 millions de dollars ont pu être décaissés sur ces fonds. Avec l'accroissement de la production européenne et la recherche de débouchés nouveaux qui l'a accompagnée, on pouvait espérer que ces opérations se développeraient. L'Etat débiteur n'étant plus alors débiteur en dollars mais en devises plus faibles et généralement plus aisément accessibles, ceci augmentait non seulement nos moyens financiers, mais la capacité de crédit de nos emprunteurs. Il est à espérer que les développements politiques de ces derniers mois ne détourneront pas la production européenne de l'exportation vers les besoins militaires au point où nos espoirs se trouveraient frustrés. Nous persistons à croire, et nous en avons de nombreux exemples, que les possibilités dans ce domaine sont considérables et qu'elles le resteront.

On nous a souvent demandé si dans le monde troublé qu'est celui d'aujourd'hui, et dans l'incertitude où les plus clairvoyants se trouvent quant à son évolution, la Banque cherchait à s'assurer des garanties applicables directement aux prêts qu'elle consent.

D'une manière générale, cela n'a pas été le cas. Les prêts ont été consentis sur le crédit général de l'Etat emprunteur ou garant. Mais là aussi la Banque n'a pas voulu établir de règle de politique absolue. La souplesse qu'elle a cherché à maintenir dans ses opérations s'étend à ce domaine un peu particulier. Dans deux cas précis la Banque a obtenu un gage spécial : il s'agit des bateaux achetés par les compagnies de navigation hollandaises sur lesquels la Banque a obtenu une hypothèque, et en second lieu, des cessions de redevances pétrolières qui servent de base au prêt consenti à l'Iraq. Mais ces cas sont restés exceptionnels. En général nous n'avons pas demandé d'autre engagement particulier que celui dit du "gage négatif" ; notre débiteur s'engage à ne pas accorder de privilèges à un autre créancier éventuel sans en faire bénéficier la Banque pari passu.

Je vous ai décrit comment la Banque se procurait des ressources, comment elle fixait les conditions à demander à ses emprunteurs, comment elle déterminait le montant qu'elle accorderait et à quelles fins elle voulait que servent ses crédits. Le contrat une fois signé, sa tâche n'est pas terminée; elle doit encore veiller à ce que les fonds soient bien utilisés aux fins prévues dans le contrat et

elle doit en outre rester en contact constant avec son débiteur afin d'être renseignée sur les dangers qui pourraient menacer le service du prêt. La surveillance d'emploi des fonds nous est très légitimement imposée par nos statuts. Les décaissements pour le compte de l'emprunteur n'ont lieu qu'au fur et à mesure que des justifications nous sont fournies sur les dépenses de celui-ci. L'acquisition progressive des équipements ou des marchandises et l'état d'avancement des travaux font l'objet de bordereaux et de rapports périodiques. C'est une opération qui peut s'étendre sur plusieurs mois ou plusieurs années, selon la nature des travaux en cause et elle a donné plusieurs fois à la Banque Internationale l'occasion de suggérer des procédés plus efficaces ou d'éviter des délais regrettables dans l'achèvement du projet financé.

Une fois les décaissements terminés et le projet achevé, la Banque reste encore vivement intéressée à l'évolution financière et économique de l'Etat débiteur, ou, s'il s'agit d'une entreprise, au développement de ses affaires. Ainsi que nous l'avons indiqué plus haut, la Banque restant créancière pendant toute la durée du prêt, il est de son intérêt vital que des catastrophes ou même des incidents ne

viennent pas compromettre le service auquel elle a droit. Tous nos contrats comportent une clause dite "de consultation" qui lui permet de maintenir un contact permanent avec ses débiteurs et de s'entretenir ouvertement avec eux de leurs difficultés et de leurs perspectives. Ceci nous impose une tâche relativement lourde et nous oblige à suivre de près non seulement l'évolution de nos futurs emprunteurs mais celle de nos emprunteurs passés. Si l'on se souvient bien que souvent nos opérations ne sont pas destinées à financer une fois pour toutes les besoins d'un pays, mais constituent un premier pas qui sera peut-être suivi d'autres, on peut espérer que de ces contacts constants et de ces financements successifs naîtra, avec la compréhension plus aigüe des problèmes de nos débiteurs, une influence à long terme de la Banque Internationale sur leur évolution économique.

Voilà, Messieurs, notre mécanisme, voilà les problèmes fondamentaux auxquels nous nous heurtons. Je n'ai pas besoin de vous dire qu'ils changent de pays à pays et d'année en année, qu'aucun cas ne ressemble au précédent. Ce sont les traits généraux et communs que j'ai tenté de tracer pour vous. Ils peuvent se résumer, je crois, comme ceci : la Banque Internationale est une coopérative d'Etats

destinée au financement à moyen et long terme d'investissements productifs. Elle prête à des nations sur leur crédit propre en tenant compte des circonstances mondiales, mais elle leur prête pour des projets définis et productifs. C'est la structure économique des pays à qui elle prête qu'elle espère affecter et des modifications de cette structure elle espère qu'il résultera non seulement une amélioration du niveau de vie chez ses emprunteurs, mais un équilibre international plus aisé.

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Leonard B. RIST

PROFESSIONAL STAFF MEETING

January 16, 1952

HOW WE APPRAISE CREDITWORTHINESS



An appraisal of the borrowing country's creditworthiness is the necessary prerequisite to any loan operation. The methods used by the Economic Department in approaching this problem are not really new. But we have had to develop our own methodology on the basis of our experience with different countries, and by coordinating known methods of analysis for our special purposes. At the very outset I want to stress that we have found that no exact formula will ever answer the question. In every case a major element of judgment is involved. By this I mean judgment based on a systematic analysis of all the facts, and expressed in ranges of probabilities.

The creditworthiness of a country must be appraised in order to decide how much the Bank can lend the applicant. Like any credit problem, this amounts to determining risks. The risks incurred in international lending relate to three major areas: the political, the psychological (which is closely allied to the latter), and the economic and/or financial.

I. - The Political and Psychological Risks

The political dangers are both real in terms of actual events, and psychological in terms of the milieu created by imminent or present perils.

a) External Political Risks:

The effects of war and occupation on a country's debt status are obvious. During World War II,

Germany, Austria, Italy and Japan defaulted completely on their debt payments. Certain of the occupied countries - for example Belgium and Denmark - were able to make only partial payments. Others, including the government in exile of France, Norway and the Netherlands were more fortunate in that they could pay regularly. In Latin America a similar situation has obtained as a result of wars between different countries. During the Chaco war, for example, Paraguay was forced to suspend her debt payments.

Some of our member countries - i.e. Finland, Yugoslavia, Thailand - are more in the shadow of war than others. We have made loans to these countries in spite of their geographical position partly because of our basic optimism about the outcome of current international problems, and partly because of the management concept of the role of the Bank. We have not made loans to other countries who were also political risks chiefly because we felt they may not be in a position to make their own decisions. These include Czechoslovakia, which is under foreign influence, and Austria which is under quadripartite occupation.

b) Internal Political Dangers:

It is unnecessary to point out that civil war or violent strife can hamper a country's ability to service her debts. Paraguay in 1947 was a recent example of this. When a new party or political group comes into power, there is sometimes the danger that it will repudiate a predecessor's debt. The USSR is actually the only case of clear cut and complete repudiation. It is true that debt payments by Hitler's Germany almost came to a standstill, but on the Dawes loan and some other loans reduced payments were made. A third case in point is Austria, which was forced to default after the Anschluss.

A much more common danger than unwillingness to pay debts is a shift in government involving a change in general policies affecting the economy. Even if the willingness to pay is not affected, ability may be impaired by improvident actions, but now we are approaching economic analysis.

c) Psychological Risks:

Most frequently these are the extent to which foreign contracts are considered sacred enough or

foreign credit precious enough to impose great sacrifices on the population in times of stress. A country's attitude on these matters can be judged partly by her debt record and partly by the treatment of foreign investors other than direct creditors. To a certain extent the judgment must also include some guesswork.

1. Debt Record: From the history of the past debts we can form an opinion on:

- the reasons why defaults occurred
- how quickly a remedy was found
- the terms of settlement, if any
- the type of settlement (whether unilateral or bilateral)
- the atmosphere of the negotiations with the creditors

ii. Treatment of Other Creditors: Although a less important factor than the debt record, this element should be considered in passing judgment on willingness to abide by obligations.

It is also necessary to determine whether in the future a good attitude towards foreign investment is likely to prevail. This depends on the economic welfare of the country - a matter of economic analysis - and on the political and psychological evolution within the country. It also depends on expectation of future loans.

II. - Economic and Financial Risks

Assuming that the Bank feels that the political risks are acceptable and that the willingness to pay is present and has a good chance of remaining alive during the period of our loan, then the question arises: How much can we lend and, as a subsidiary point, in which currency ?

This is a problem of ability to pay, which is a narrower question than capacity to pay. The point to be determined is the amount of foreign service payments a nation can bear in each year within the foreseeable future. We are concerned here not so much with the principal amount of the debt, but with the ability to meet interest and amortization payments.

No country manufactures foreign exchange; it must

earn it by selling goods or services, including tourism. And of course, no country can devote all its foreign exchange earnings to debt service. How much is available for service depends to an extent on the amount of goods and services which must be imported. The ability to earn foreign exchange as well as the need to spend it for necessary imports vary from country to country. We must therefore, study simultaneously a country's imports and exports of goods and services and their flexibility, that is to say the ability to shift or reduce imports and to expand exports.

A - Static View of Balance of Payment Patterns

The study of the past and present developments in a country reveals a good deal about its foreign exchange resources. One gets a picture of the factors influencing the balance of payments by looking at:

- a) its structure, i.e. the composition of exports and imports (in the broadest sense)
- b) the distribution of its trade by area, and
- c) its trade and financial policies.

a) The structure of trade and services:

As to Exports:

In analysing the external exchanges of a country it will be necessary to ascertain what type of goods are being exported, and whether they are susceptible to wide variations in volume or in price. For this purpose a study by commodity should be made, bearing in mind the following behavior characteristics of the different commodities. In very general terms we can say that:

Copper, lead, zinc are subject to wide variations in volume and price

Coffee, wool, woodpulp & paper are flexible in price but much less in volume

Rubber & jute have definite ceilings in production and price (at least in the long-run)

Cotton has almost a floor - due to US support policies

Iron ore, coal, pigiron have comparatively stable markets.

Turning to manufactured goods, we find that here too certain characteristics can be observed.

- i. Consumer goods: textiles or food are in general more stable in volume & prices than raw materials.
- ii. Capital goods: the demand for capital goods depends largely and much more directly on the level of income in the importing countries than does the demand for most other goods. There are variations within the general category, i.e. machine tools are much more unstable than generators.

In short, irrespective of the aggregate demand for all goods in international trade - a point to be discussed later - each individual export - including tourism - has a history of its own and is subject to influences of its own (including the weather) which makes for variations of one product relative to the others.

As to Imports:

The same is valid for imports. England is greatly dependent on foodstuffs and raw materials from abroad and is more susceptible to changes in international markets than say France which does not have the same structure of imports. England is also less able to sacrifice a large sector of its imports in times of stress.

Chile and Peru are more dependent on foreign food than Mexico, but in turn Chile and Mexico have such a drive for development that capital goods imports in these two countries are probably less flexible than in the case of Peru.

It is of course not possible to go into every commodity, but it is necessary to go far beyond the generalities allowed by the aggregate classifications common in foreign trade statistics: raw materials & food - semi-finished products - finished manufactures.

b) Direction of Trade:

What a country exchanges is only part of the problem; with whom it exchanges goods and services is equally

important. In the first place this factor may influence the stability of its trade. Dramatic examples are Austria and Yugoslavia. Austria traditionally sold in the Danube basin, therefore, the East/West trade slowdown has had disastrous effects on its balance of payments. Yugoslavia, which for a while traded with the East, now turns for trade outlets to the West. Since the West to a great extent had been its traditional market, the readjustment is less difficult.

In the second place, an answer to the question "in what currency can we lend" depends in large part on the distribution of trade (besides the availability of the currency). If we find that most of Mexico's exports go to the United States and most of its imports come from the U.S., we shall assume that for practical purposes all its borrowing could be in \$.

If Chile has a large market in the U.S. but sells a substantial fraction of its nitrate in Europe and Egypt and if furthermore it tends to import more from the U.S. than from other currency areas, we shall consider it a border case, where dollars can be lent. But we shall add that if non-dollar currencies were freely available, we would prefer to see Chile borrow a part in non-dollar currency.

India has normally a favorable bilateral balance with the U.S. Pakistan does not. Unless one should choose to rely on the sterling area central reserves - which entails almost a political judgment - one must admit that India has a greater borrowing power in dollars than Pakistan.

c) Policies:

i. Is it necessary to add that government import policies have a considerable effect on individual commodities? The purchasing markets may impose or lift trade restrictions, tariffs, bulk purchase agreements, quotas (such as the sugar quotas in the U.S., on which Cuba depends), subsidies to local production, etc. They may even fix prices; everyone has read of the negotiations between the U.S. and Chile on copper prices. Tin prices are now in the headlines, etc.

ii. Equally, if not more important, are the general policies, the trade, financial, monetary and investment policies and their effect on the total flow of trade. This is the most delicate analysis required from us. Let

us just list a few questions which arise in this connection.

Will India be able to maintain its generally stable monetary policy under the stress of the Five Year development plan ?

How could a change in the Argentine trade methods affect Uruguay's meat and wool exports ?

Is Australia's shortage of foreign exchange and its great import boom due to internal financial policies, to the great investment going on in the country, or both ?

There are also some short-term questions (often very much akin to problems I.M.F. has to deal with). Although they may not be directly relevant to a judgment as to long-term trend, they are indicative of the mechanisms at work in the country, e.g.:

Is the rate of exchange of Colombia fostering exports and discouraging excessive imports ?

Have imports been discouraged by the devaluation of the Peruvian sole ? Has this affected the progress of useful investments ?

What effect does the Thailand special monopoly and exchange rate on rice have on the budget and on rice production ?

Is investment fostered by the present Brazilian exchange regulations ? Are budgetary policies and Bank policies more important than exchange regulations ?

The answer given to these questions is never easy. A great deal of continuous observation is required since business psychology is never the same in two countries, and the same economic mechanisms may work quite differently in different surroundings and at different times. The greater, however, our familiarity with individual country problems, the more accurate our interpretation. One excellent instance of discrepancies from country to country can be found in the extent to which additional income creates additional need for imports, - what is technically called the marginal propensity to import. This relationship is fairly constant in each country under similar circumstances, but varies from country to country. It is important for us to determine as far as possible this factor, since the investments which we are financing will of themselves affect incomes and thereby the propensity to import.

Thus, by observing the past and present, we have determined the economic mechanisms at play in a given country, and in its relationship with the outside world. We have tried also to disentangle the permanent features from the transitional ones; we have attempted to recognize long-term trends as distinct from short-term variations, as well as the resilience of the economy when it undergoes a crisis.

Let me add a word of warning about one arithmetical relationship which we use frequently, i.e. the percentage of debt service burden to foreign exchange earnings. It is a good shorthand means of placing the country under review in a given category. In Latin America this percentage runs from say 5 to 10%. When we find that Chile and Mexico are both using up 9% of their exchange earnings on debt service, we deduct therefrom only one conclusion, that the present debt service is relatively high in both countries. But for creditworthiness we have to go one step further. Chile has a pretty rigid pattern of exchanges, Mexico can expect to expand its earnings much more quickly. Looking into the future, we shall say that Mexico's foreign debt burden, if it remains the same as now, is likely to become lighter and lighter while Chile's burden will remain relatively heavier. In other words, the description of the past and present has not yet yielded an answer to our real problem: How much can country X service in the future.

B - Dynamic Views

Here we must take a dynamic view and attempt a few forecasts. They relate mainly to what change may occur in the long-run to:

- the internal structure of the country
- the evolution of world markets
- the future movements of international capital

a) Changes affecting internal structure:

Ten years from now all countries, including our borrowing countries, will have different patterns of production, consumption, and investment. As a result, their exchanges with the outside world will be different.

We may without doubt accept the premise that their overall resources will have increased and - especially if the investment pattern is reasonable - that they will have more income and, therefore, will be in a better position to export some of their available resources to service foreign debt. But it is not enough for us to assume this. We must try to forecast by how much their resources will expand, in what field, and whether the new production will be transferable. You can improve your national income without improving your balance of payment position.

In order to make forecasts of this kind, we must evaluate the rate and the pattern of investment currently in operation - or to be expected. We must - even if we are not responsible for assisting the government in drawing up an investment program - we must reach some quantitative and qualitative appraisal of the progress of production and consumption.

This procedure should not be confused with economic programming. Rather than an attempt to say what should be done, it is an attempt to rationalize what is actually going to take place, whether coordinated or not.

Many of you know that in the case of Chile for instance, we have always expressed concern about the apparent lack of logic in the investment pattern encouraged by the government. We are certainly more hopeful about Colombia. In the case of Finland, we have found a great consciousness of the problems involved but also some undesirable distortions. Regarding India and Pakistan, we are trying hard to figure out whether the present plans are quantitatively and qualitatively designed both to allow the standard of living to catch up with population growth and to improve the foreign exchange outlook. It looks simple when you state the question. It is quite another thing to answer it.

b) Changes affecting World Markets:

The chief influences on world markets are usually outside the control of our individual borrowers. The U.S. primarily and Western Europe including U.K., are the major factors here. Inevitably the economic position of the U.S., U.K. and Europe must therefore be forecast whenever we try to forecast the future of Ruritania.

You will certainly not be surprised if I say that our

assumptions are based on the theory that income in the U.S., which has doubled in the last thirty years, will continue to grow; that therefore the aggregate demand for imports here will grow too, though perhaps not as quickly and that in the long-run the world supply of dollars from sales to the dollar area is bound to rise. The pace at which this growth will take place is, however, a nice field of controversy. Generally speaking, I would say that we have in this connection taken a position of mild optimism. The same would be true of the other Western Countries.

You will also not be surprised if I say that we further assume the possibility of some readjustment along with this rising line. We do not fear a repetition of the great depression but we do not believe either that 1949 is the worst readjustment our generation will ever witness, or that such readjustments will remain a rare occurrence.

In practical terms, this means that we shall be careful when forecasting balances of payments not to take the price level induced by the Korean war as a basis. We would rather take an average such as mid-1949/mid-1950. We shall also surmise that in the long-run the demand for imports generally and for raw materials in particular will remain on the up grade. So will the market for foodstuffs, though in broad terms this would be due both to demand in the industrialized countries and to an improvement in the income of the underdeveloped ones.

c) Movements of Capital:

This is actually part of the previous question. Movements of capital have, of course, a direct bearing on the world supply of dollars and on the credit-worthiness of our borrowers.

Only a few countries produce enough resources to be net exporters of capital, and only one country - the U.S. - makes export of capital a matter of national policy. The support given by the U.S. to the International Bank is among many others a token of this policy.

If we were to assume that one day soon the balance of payments of the U.S. would be exactly balanced and that there would be no export of capital over and above what is necessary to pay for the goods and services received from outside, it is probable that a number of foreign borrowers would find their debt service burden difficult to bear.

Since, however, the resources of the U.S. and the policy of the U.S. are what they are, and since fundamental changes are not likely in either of them in the next few years, we can safely assume that net capital exports, private or official, will continue.

Most of the countries the Bank has dealt with recently will be capital importers for a long period to come. They will continue to require outside capital to help them rebuild or develop their economies. And of course it is important that we should try to predict these imports, whether they be in the form of loans or grants or planned private investments. But if they were asked to repay - not each loan - this is not the question - if they were asked to repay net more than they receive in the aggregate, they would be expected to be capital exporters, which is hardly likely to be possible for a long period. Therefore, we must assume that on the average, not for each year but on the average, there will be at least a maintenance of their foreign indebtedness if not a slow increase.

Is it necessary to point out that we here rejoin our first remark about the need for a favorable climate for borrowing and for receiving private foreign investment ?

CONCLUSION

We seem to have run around in a circle, and indeed since the problem is one of judgment and not one of exact formulae, we had to review at least the main elements which we must consider in appraising creditworthiness. They are tightly interwoven, but they do not all deserve the same emphasis in each country. Many times, let us confess it openly, we may reach conclusions which others would be entitled to challenge.

I think, however, that it is now understood why creditworthiness should not be expressed in one fixed figure of possible borrowing for one country. There is a range of relative safety, a range of greater risk, and another range of undue risk. Sometimes our loan contracts, our consultations, our survey missions will assist in allaying some of the risks. Never will they be totally eliminated. Moreover, never will a forecast be reasonably safe for a long period. It must be revised constantly. This is the reason why in presenting our conclusions we should not say "This is what country X can borrow". We

say "This is the service burden which country X can be expected to bear without strain three to five years from now. Let us determine our immediate lending on that basis". A new estimate will be provided long before the five years have lapsed.

Somehow, it would look as if the job of assessing creditworthiness were more stable than creditworthiness itself...

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DE COMO AVALUA EL BANCO EL CREDITO DE UN PAIS

How We appraise Credit-worthiness
Leonard B. RIST

Avaluar la capacidad de absorción de crédito de un país es prerequisite necesario a todo empréstito. Nuestros sistemas no son realmente nuevos; pero hemos desarrollado una metodología propia con base en nuestra experiencia en varios países y mediante la adaptación a nuestros propósitos de los métodos de análisis conocidos. Con todo, no hay una fórmula exacta. Siempre hay envuelto un elemento de juicio, que se funda en el análisis de los factores y se expresa en una escala de probabilidades.

La capacidad de absorción de crédito de un país tiene que ser calculada para decidir cuanto puede el Banco prestarle. Como todo problema de crédito, envuelve la determinación de las contingencias. En los préstamos internacionales los riesgos son de tres categorías principales: políticos, psicológicos (estrechamente relacionados con el primero) y económicos o financieros.

I. - Riesgos Políticos y Psicológicos

Los riesgos políticos son a la vez reales, de acuerdo con los eventos del momento, y psicológicos, de acuerdo con el ambiente creado por peligros inminentes o presentes.

a) Riesgos Políticos Externos:

Los efectos de una guerra o de una ocupación militar sobre la deuda de un país son obvios. En la última guerra mundial Alemania, Austria, Italia y el Japón suspendieron por completo los pagos. Algunos países ocupados, como Bélgica y Dinamarca, hicieron pagos parciales. Otros como el gobierno en exilio de Francia, Noruega y los Países Bajos pudieron pagar regularmente. En

la América Latina hubo una situación similar durante la guerra del Chaco, cuando Paraguay suspendió pagos.

Algunos países como Finlandia, Yugoslavia y Tailandia están más cerca que otros al espectro de la guerra. Les hemos hecho préstamos, a pesar de su posición geográfica, en parte por nuestro optimismo básico sobre la suerte de los problemas internacionales y, en parte, debido al concepto de la dirección del Banco sobre el papel que el Banco desempeña. No hemos hecho préstamos a otros países que también son "riesgos políticos" por creer que no pueden decidir de su propia conducta. Sirven de ejemplo, Checoslovaquia, bajo influencia extranjera, y Austria ocupada por cuatro países.

b) Riesgos Políticos Internos:

Una guerra civil o motines violentos pueden impedir que un país sirva sus deudas. Paraguay en 1947 es ejemplo reciente. A veces, cuando un nuevo partido llega al poder hay riesgo de que repudie las deudas de su antecesor. La Rusa Soviética es el único país que ha repudiado completamente su deuda. Austria fué obligada a suspender pagos después del Anschluss.

Un cambio brusco en la política económica de un gobierno es riesgo más frecuente que la desgana de pagar. Aun cuando el deseo subsista, la habilidad puede quedar afectada por situaciones imprevistas. Estamos acercándonos al análisis económico.

c) Riesgos Psicológicos:

Con frecuencia éstos resultan del grado hasta dónde un contrato internacional se considera sagrado o hasta dónde el crédito externo se aprecia como para imponer sacrificios a la población en tiempos difíciles. Podemos juzgar estas situaciones con la historia de la deuda de un país y, en parte, con

el tratamiento dado a los inversionistas extranjeros.

i. La Historia de la Deuda: Con ella podemos formarnos una opinión sobre:

- la razón por la cual los pagos fueron suspendidos
- qué tan pronto se encontró el remedio
- las condiciones del arreglo, si lo hubo
- el tipo de arreglo (unilateral o bilateral)
- la atmósfera de las negociaciones con los prestamistas

ii. El Tratamiento a Otros Inversionistas: Aun cuando menos importante este elemento debe considerarse.

Debe también calcularse qué actitud futura adoptará un país. Esto depende en parte de su bienestar económico (cuestión de análisis) y en parte de su evolución política y psicológica.

II. - Riesgos Económicos y Financieros

En el evento de que el Banco halle aceptables los riesgos políticos y encuentre que hay voluntad de pagar, surge esta cuestión: Cuánto podemos prestar y, punto subsidiario, en qué moneda?

Este es un problema de habilidad para pagar. El punto por determinar es el volumen de servicio anual de deuda externa que una nación puede resistir en un futuro previsible. No nos importa tanto el capital como la habilidad para servir amortización e intereses.

Los países no manufacturan cambio extranjero: tienen que ganarlo mediante la venta de bienes o servicios, inclusive turismo. Y naturalmente, no hay país que pueda dedicar todo su cambio exterior a servir su deuda. Lo destinable depende de la cantidad de bienes y servicios que tenga que importar. La habilidad

para obtener cambio extranjero y la necesidad de invertirlo en importaciones necesarias varía de país a país. Hay que hacer estudios especiales en cada caso incluyendo el factor de flexibilidad, o sea la habilidad para reducir las importaciones y expandir las exportaciones.

A. - Características Estáticas de la Balanza de Pagos

El estudio de los desarrollos pasados y presentes de un país da mucha luz sobre sus posibles recursos de cambio extranjero. Se adquiere una idea de los factores que influyen en la balanza de pagos si se examina:

- a) su estructura, es decir, la composición de sus exportaciones e importaciones en un sentido general
- b) la distribución de su comercio por áreas, y
- c) su política comercial y financiera.

a) La estructura del comercio y de los servicios:

Exportaciones:

Al analizar el intercambio exterior de un país es necesario precisar qué tipo de bienes exporta y si son susceptibles de variaciones de volumen y precio. Para ello debe estudiarse cada renglón, teniendo en cuenta en términos generales las siguientes características de los diferentes bienes:

El cobre, el plomo y el cinc están sujetos a grandes variaciones de volumen y precio.

El café, la lana, la pulpa y el papel son flexibles en precio y no tanto en volumen.

El caucho y el yute tienen limitaciones definitivas de producción y precio, al menos a la larga.

El algodón tiene casi un mínimo, debido a la política de sostén de

precios de los Estados Unidos.

El mineral de hierro, el carbón y el hierro colado tienen mercado relativamente estable.

En cuanto a los bienes manufacturados, ciertas características pueden observarse.

- i. Los bienes de consumo: Textiles y víveres, suelen tener mayor estabilidad de volumen y precio que las materias primas.
- ii. Los bienes de capital: Su demanda depende principal y directamente del nivel de renta de los países importadores y no de la demanda de otros bienes. Dentro de esta categoría general hay variaciones. Por ejemplo, las herramientas para fabricar maquinaria son menos estables que los generadores.

Para resumir, todo artículo de exportación, incluso el turismo, tiene su historia propia y está sujeto a influencias directas (inclusive el tiempo).

Importaciones:

Lo mismo ocurre con las importaciones. Inglaterra depende en alto grado de los víveres y las materias primas extranjeros y es más susceptible de cambios en su mercado internacional que, digamos, Francia que no tiene la misma estructura de importaciones. Inglaterra puede sacrificar menos importaciones en tiempos difíciles.

Chile y el Perú dependen más de los alimentos extranjeros que México; pero en cambio Chile y México empujan en tal forma su desarrollo que la importación de bienes de capital en esos países es quizá menos flexible que en el Perú.

b) Dirección del Comercio:

Lo que un país intercambia es sólo parte del problema. Con quién lo intercambia es igualmente importante. Este factor puede influir en la estabilidad del comercio. Ejemplos dramáticos son Austria y Yugoslavia. Austria vende tradicionalmente en la cuenca del Danubio, por consiguiente la disminución del intercambio comercial entre el Oriente y el Occidente tiene efectos desastrosos en su balanza de pagos. Yugoslavia, que comerciaba con el Oriente, ahora mira al Occidente. Su reajuste ha sido menos difícil.

La respuesta a la pregunta ¿en qué moneda podemos prestar? depende en parte de la distribución del comercio (además de las disponibilidades de moneda).

c) Política:

i. Hay que añadir que la política de importación de un gobierno afecta considerablemente ciertos artículos. Los mercados compradores pueden poner o quitar restricciones; subsidios a la producción, etc. Pueden inclusive fijar precios. Todos sabemos de las conversaciones recientes con Chile sobre el precio del cobre y con Bolivia sobre el estaño.

ii. De igual o mayor importancia es la política general de comercio, finanzas, moneda y política inversionista y su efecto sobre el mercado general. Este es el análisis más delicado que emprendemos.

Tenemos que hacernos unas cuantas preguntas: Por ejemplo ¿cómo afectará un cambio en los sistemas comerciales de la Argentina la exportación de carne y lana del Uruguay? La tasa de cambio de Colombia ¿está

favoreciendo o desanimando las importaciones? ¿Se han desanimado las importaciones a causa de la devaluación del sol peruano? Las regulaciones actuales del Brasil ¿favorecen la inversión extranjera?

Las respuestas nunca son fáciles. Se requiere una constante observación ya que la psicología de los países no es igual y el mismo mecanismo económico puede producir resultados diferentes en distintos países o en distintas épocas. Pero a una mayor familiarización con los problemas de un país determinado corresponde una mejor interpretación. Un ejemplo excelente de discrepancia de país y país puede hallarse en el punto hasta el cual una renta adicional puede crear una necesidad adicional de importaciones -- lo que técnicamente se llama "la propensión marginal a importar". Esta relación es más o menos constante dentro de circunstancias iguales; pero varía de un país a otro. Este es factor importante para el Banco puesto que las inversiones que financiamos afectan directamente las rentas y por consiguiente la propensión a importar de los clientes.

Hemos tratado de determinar los mecanismos económicos en juego en un país dado; de separar las características permanentes de las transitorias; de aislar las tendencias a largo término de las variaciones a corto plazo y también la elasticidad de una economía al atravesar una crisis.

Debemos mirar con cuidado una relación aritmética que se usa con frecuencia: el porcentaje del servicio de la deuda en relación con las entradas de divisas. En la América Latina este porcentaje va del 5 al 10 por ciento. Al hallar que Chile y México aplican el 9% de sus entradas de divisas a servir la deuda, podemos sacar sólo una conclusión: que el servicio actual de la deuda es relativamente alto en ambos países. Pero

tenemos que dar un paso más. Chile tiene hoy un rígido sistema de cambio. México puede expandir sus adquisiciones de cambio más aprisa. Mirando al futuro tendríamos que decir que la carga de la deuda externa mexicana, si se mantiene igual, será cada día menos pesada mientras que la carga chilena se mantendrá relativamente pesada. En otras palabras, la descripción del pasado y del presente no contesta del todo la pregunta: ¿Qué deuda puede servir el país X en el futuro?

B - Características Dinámicas

Ahora debemos adoptar una visión dinámica y tratar de predecir el futuro, en lo que se refiere a posibles cambios a la larga, en:

- la estructura interna de un país;
- la evolución de los mercados mundiales; y
- los movimientos futuros del capital internacional.

a) Los cambios que afectan la estructura interna:

Dentro de diez años todos los países habrán cambiado en cuanto a producción, consumo e inversiones. El intercambio con el mundo exterior será diferente. Podemos aceptar la premisa de que los recursos totales habrán aumentado; de que habrá aumentado también la renta, y por lo tanto, que estarán en mejor posición de exportar algunos de sus recursos disponibles para servir deudas externas. Pero, además, hay que tratar de calcular el volumen del aumento y si la nueva producción ha de ser transferible. Es posible mejorar la renta nacional sin mejorar la posición de la balanza de pagos.

Para poder predecir, hay que evaluar el volumen y la clase de inversiones actuales o que puedan esperarse. Tenemos que llegar a una

evaluación cualitativa y cuantitativa del progreso de la producción y del consumo.

Esto no debe confundirse con la confección de planes económicos. Más bien que un intento de decir qué debe hacerse, se trata de racionalizar lo que ha de suceder, con o sin coordinación.

En el caso de Chile, por ejemplo, nos preocupa la aparente falta de lógica en los sistemas de inversión que estimula el gobierno. Colombia infunde mejores esperanzas. Nos preocupa averiguar si la India y Pakistán han de levantar su nivel de vida para ponerse a la altura del crecimiento de la población. Hacerse una pregunta es fácil; contestarla es difícil.

b) Cambios que afectan los Mercados Mundiales:

Las principales influencias en los mercados internacionales por lo general están fuera del control de los prestatarios. Los Estados Unidos y la Europa Occidental son los factores principales en ellas. Por consiguiente, para poder calcular el futuro de Ruritania es preciso conocer la posición económica de los Estados Unidos, el Reino Unido y Europa.

Ustedes no han de sorprenderse de que esta presunción se basa en la teoría de que la renta en los Estados Unidos, que se ha duplicado en los últimos treinta años, ha de continuar creciendo. Y que, por consiguiente, la demanda seguirá subiendo de seguro, aun cuando no al mismo ritmo y que, a la larga, han de aumentar las disponibilidades de dólares para vender en el área del dólar. Difícil es predecir el ritmo de todo esto. En general, podría decirse que el Banco ha asumido en esto una postura de suave optimismo. Lo mismo por lo que hace a los demás países occidentales. Tampoco sorprenderá que presumamos la posibilidad de un reajuste en esta

línea ascendente. No abrigamos el temor de que se repita la gran depresión; pero tampoco creemos que en 1949 haya ocurrido el peor reajuste de esta generación o que los reajustes hayan de ocurrir rara vez.

Al calcular las balanzas de pago hemos de cuidarnos de no tomar como base los niveles de la guerra de Corea. Preferiríamos tomar un promedio, digamos, el de mediados de 1949 a mediados de 1950. También hemos de presumir que, a la larga, la demanda de importación en general y de materias primas en particular ha de seguir en aumento. Lo mismo el mercado de víveres, aunque en términos generales ello provendrá de la demanda en los países industriales y de la mejora de la renta en los países subdesarrollados.

c) Movimientos de Capital:

Este capítulo es parte del anterior. Los movimientos de capital tienen, desde luego, influencia directa en los saldos mundiales de dólares y en el crédito de los prestatarios.

Sólo pocos países producen lo suficiente para ser exportadores netos de capital. Sólo en los Estados Unidos la exportación de capital es una política nacional. Una de las pruebas es el apoyo de los Estados Unidos al Banco Internacional.

Si supusiéramos que pronto llegará el día en que la balanza de pagos de los Estados Unidos esté absolutamente equilibrada y que no ha de exportarse capital por encima del necesario para pagar los bienes y servicios comprados en el exterior, es probable que muchos de los prestamistas extranjeros encontrarían difícil sostener la carga de sus deudas.

Pero como al parecer nada de esto ha de ocurrir en los próximos pocos años, podemos presumir confiadamente que han de continuar las

exportaciones netas de capital, particular y oficial.

La mayoría de los clientes del Banco han de ser por largo tiempo países importadores de capital tanto para reconstruir como para desarrollar sus economías. Es importante que tratemos de predecir tales importaciones ya sean en forma de préstamos, donativos o inversiones privadas. Pero si se esperara que esos países paguen más de lo que han recibido, estaríamos confiando en que se transformarían en exportadores de capital, lo cual no parece probable por mucho tiempo. Puede concluirse, por tanto, que ha de mantenerse el volumen actual de su deuda o que habrá un pequeño aumento.

Es preciso anotar ahora que hemos llegado a la anotación inicial sobre la necesidad de un clima favorable para prestar y para recibir inversiones particulares extranjeras.

CONCLUSIONES

Parece que hemos recorrido un círculo y como, en verdad, el problema es de juicio y no de fórmulas exactas, tuvimos que revistar al menos los elementos principales que tenemos que considerar al calcular la capacidad de crédito de un país. Tales elementos están estrechamente entrelazados, pero no tienen la misma intensidad en todos los países. En muchas ocasiones hemos de llegar a conclusiones que otros bien podrían discutir.

La capacidad de absorción de crédito de cada país no puede expresarse en una cifra fija. Hay primero un margen de relativa seguridad; luego un margen de mayor riesgo y luego otro de riesgo exagerado. Los contratos de préstamo, las consultas, las misiones de estudio, han de ayudarnos a veces a evitar algunos de los riesgos. Pero nunca quedarán eliminados.

Es más, los cálculos sólo han de servir para períodos cortos. Hay que re-
visarlos constantemente. Por eso al presentar conclusiones no debemos
decir "esto es lo que el país X puede absorber". Hay que decir "este es
el volumen de servicio de su deuda que puede esperarse que el país X re-
sista sin menoscabo durante los próximos tres a cuatro años. Fijemos
sobre esa base nuestros préstamos inmediatos". Nuevos cálculos deben
hacerse mucho antes de que expiren los cinco años.

Quizá estén ustedes pensando que el trabajo de calcular el crédito
posible de un país es más estable que el crédito mismo.

Leonard B. Rist

Speech file

ADDRESS DELIVERED BEFORE
THE COUNCIL OF FOREIGN RELATIONS IN
Detroit, October 21, 1952



Gentlemen,

Let me first say how much I appreciate the opportunity of meeting with you tonight. It was such a pleasant and stimulating experience to meet with one of your sister groups in Kentucky a few months ago that I had no hesitation in accepting your invitation.

Upon reflexion, however, the venture seemed to me a little more formidable. Here I am, a Frenchman talking to Americans about Asia. I have found an excuse for that: I am really speaking to you as a member of the staff of the International Bank about our experience in an international organization in connection with one particular part of the world.

More embarrassing is the fact that some of you have had prominent positions in the Far East and are very familiar indeed with the conditions and problems of the area. Here also I tried, however, to contrive an excuse: our knowledge of Asia is not limited to that of

the bookworm; our Bank has been dealing very actively with a number of Asiatic countries, especially during the last two or three years. True, Burma and Japan have only just joined, and Indonesia is taking steps to do so, but Pakistan, India, Ceylon and Thailand have confronted us with their financial and economic problems over the last few years. We have given them loans amounting to about \$120 million until now and are currently considering some more. This is why our President, Mr. Eugene Black, visited these countries last Spring, and I was privileged to accompany him. Our trip took us also to Singapore, Australia and New Zealand, but their problems are so different from those of the four countries I have mentioned that it would be somewhat misleading to deal with them at the same time. I will, therefore, confine myself to the Indian subcontinent, Ceylon and Thailand.

I - Position
in the world

Overlooking for the moment their internal problems, what is their relation to the outside world? Very briefly two points stand out. First, they are all countries of the Free World and the Soviet - or communist - threat affects them all though to varying degrees. Second, three of them are members of the British Commonwealth, which involves in turn being members of the sterling area and of the Colombo Plan.

Communist
threat

It is hardly an exaggeration to say that all these countries are so deeply aware of the communist menace

that their own disputes, however bitter they may still be, are overshadowed by it.

India probably deserves to be mentioned first. In view of her size, of the prestige her hard fight for independence has won her, and of the world reputation of her leaders, India is in a position to play almost the role of a leader in international politics among her neighbors, especially East of Calcutta, in the Southeastern peninsula, and in Indonesia. There is no doubt that India on the whole is leaning towards the West, culturally and economically, she believes in individual freedom and democracy. The constructive fashion in which assistance from the United States has been received and handled is a good instance. India is still keeping in jail some of the communist leaders. Again, when you point out to the Indians their relatively heavy military expenditures, it is an easy retort for government officials to say that, irrespective of Pakistan, Asia's predicament would justify bigger armies.

It remains true, however, that the reluctance of India to side openly with the West on purely political issues has prevented many others - except Thailand - from taking sides actively. The reasons for her hesitancy are numerous: the Indian government does not want to be too closely associated with the countries of the West who are considered, a priori, imperialistic. There may still be in some minds the hope that China may evolve her own type

of communism, and not become a satellite. Finally, India is naturally proud of the number of her citizens and the size of her continent and may well consider herself as a potential peacemaker. The result, however, is obvious enough: this neutralist attitude runs the risk of being interpreted by India's neighbors as meaning either that there is no immediate danger or even that the outcome of a conflict may be doubtful. Meanwhile, India finds herself in the strange position of competing with communist China on one hand and Japan on the other to act as the mouthpiece of Asia's nations.

Pakistan, still bitterly at odds with her Indian neighbor, turns more and more her eyes to the West. She is anxious to see Iran emerge from her present crisis not simply because there are traditional cultural bonds between them but mainly because of the implications which chaos in Teheran may have for Pakistan's Western border. Indeed Pakistan, the greatest Moslem state, endeavors to take a lead in the consolidation of the Middle East.

Kashmir is, of course, a very live issue, but it does not allow either Pakistanis or Indians to forget that an independent Kashmir (and there has been some talk of it) might lead to communist infiltrations.

Nepal is in a constant state of tension and the Indians watch developments there with great concern. In Thailand, there is no hiding from the fact that both Burma and Indochina are potential threats. Moreover, Thailand is

the only country in Southeast Asia which has taken a strong position and has sent a battalion to Korea.

Ceylon is somewhat more complacent than her neighbors, a general impression of peace prevails in Colombo. The Singhalese seem to feel that they are well protected by Singapore and India and also perhaps by the existence of a British naval base on the island. The points of view, thus, differ from country to country, but nowhere does one find the indifference to the communist threat which some newspaper reports would lead us to expect. The communist threat can be said to act as a damper on local conflicts and as a stimulant to watchfulness.

British
Commonwealth

As to the Commonwealth relationship, it can be said to act as a real link between at least three of the four countries mentioned. Nothing is more striking to the visitor than the way in which the relationship with London is recognized in Pakistan and Ceylon but also in India. Possibly the greatest tribute to British policy in Asia is the way in which five years after independence Indian leaders and citizens speak and act, short of political and military commitments, as loyal members of the Commonwealth. Their attitude at the time of the death of King George VI, their desire for technical assistance from the United Kingdom, many other signs leave no doubt about India's relationship to the Commonwealth.

Sterling
22

The Commonwealth bond has an economic aspect which is perhaps even stronger than the political and cultural

one, namely the participation in the sterling area. This implies or arises from some common features:

- Very active trade with the United Kingdom and the rest of the area;
- Instinctive preference for British goods to which they are accustomed;
- Financing of foreign trade through London and with sterling;
- Large sterling balances, both working balances and Central Bank reserves;
- Traditionally wise and conservative monetary and fiscal policies.

These all survived the war, and solidarity among the countries involved is a matter of course. But one black spot has now appeared: imports of British capital can no more be relied upon as a source of outside resources for development. The freedom of movement of capital from the United Kingdom to the members of the area is one of the very strong links among them. The Commonwealth Conference, last January, left little hope that capital issues for the members will be easy in London for quite a while. It has even been strongly impressed upon them that drawings on sterling balances should be reduced to the minimum. This would be an untenable position in the long-run; it is essential that some margin of net exportable resources be created in the United Kingdom and that the traditional flow of capital, if only in the form of repayment of balances, be

restored as quickly as possible, otherwise the members who are capital importers would find themselves in the unpleasant position of demanding payment. Meanwhile, it is no surprise that the countries in question should look for capital from other countries, including the United States.

II - Urge for development

This brings us to the problem of development and to the reason why it is so pressing in that part of the world.

The best way to describe it to you is perhaps to underline the striking contrast between the feeling of urgency experienced in India and Pakistan and the much more relaxed atmosphere which is prevalent in Ceylon and Thailand. It is not only the size of the countries or the size of their population which can explain that. It is probably also the more austere and religious atmosphere of the Moslem and Hindu cultures as compared with the Buddhist influence in Thailand and Ceylon. But more than anything this feeling of urgency is due to economic and social factors.

Population

By a strange twist of fate, the Indians and the Pakistanis came to rule themselves at the very time when their countries were confronted with tremendous tasks. True, they have hardly suffered from the war, except for the casualties suffered by the troops contributed to the Allies, except for wear and tear on their railroads and industrial equipment, except also for inflation. But

their problems are more deep-seated. The first and obvious one is population. Not so much the fact that India has 360 million inhabitants and Pakistan has 75, not so much even the differences in language or customs within each country or the need for administrative decentralisation, but rather the constant increase of a population which is living at ^{an} appallingly low standard. Contrary to general belief, the rate of increase of population is no higher than in the U.S., i.e. 1.2 or 1.3% per annum. But that means that on the basis of mathematical projection, populations should double some time after the turn of the century. In fact, this is probably a pessimistic view and the best estimate is that India will probably just about exceed the 500 million mark by 2000. This is still 150 million more than now. The reason why some slowing down may be expected is that the improvement in health conditions which makes for longer lifespan will probably be more than offset by the relative increase in the number of city dwellers, the rise in the average age of marriage, and probably also birth control propaganda to the extent it will be successful. But even if the progression is not mathematical, India must envisage to feed some 130 million or more people in the next fifty years.

For Pakistan, the proportion is comparable.

Cultivable Area This prospect is threatening these countries at the very moment when expansion of cultivable area becomes

exceedingly difficult. The possible expansion in India over the next ten years is something like 10 million acres, or 4% of the area cultivated at present. In Pakistan, the proportion is about 6%. This readily explains why the problem of the Indus valley is one of life and death for so many millions of people and why besides their dispute on the political supremacy over Kashmir, Indians and Pakistanis are fighting over the rights to dispose of the waters of the Indus and its tributaries. As you may know, the Bank has made an attempt to reconcile the points of view of the Indians and the Pakistanis on this bitter issue by provoking technical conferences among engineers of the two countries. It is hoped that some agreement may be reached on the future use of all water resources of this area.

Besides irrigation, land reclamation is needed in many places. The International Bank again is contributing in the Northern and Central part of India to a large program for the eradication of a weed called the "Kans grass", with the hope of restoring yields which have been reduced sometimes by 70 or 80%.

Irrigation and reclamation more often aim at increasing yields or allowing for double cropping than at opening up new areas. Actually the great hope for Indian agriculture resides in improved tilling and cropping, improved seeds, improved use of fertilizers. The U.S. government has recently launched an experiment of which you

certainly have heard, which consists of creating community centers where Indian experts, trained largely by Americans, would try to deal with health and methods of cultivation at the same time. It is hoped that these centers will multiply and that by spreading the example some modernization can be achieved within a reasonable period. Nobody has, as yet, dared to predict the disappearance of the religious prohibitions which are still prevalent in many areas against consuming beef or preventing the monkeys from destroying the crops.

Foreign Trade

The obvious solution, as long as local production does not suffice to meet local needs, is imports. But 3 to 5 million tons a year is a tremendous amount in a country like India where foreign trade never played a considerable part in national income. Pakistan is in a better condition since she has usually substantial surplus in jute and wheat so that the normal consumption needs are on the whole satisfied by local production. In other words, the preoccupations of Pakistan relate more to the problem of how to meet the needs of a rising population in the future; the preoccupation of India relates both to the present and to the future.

Industrialization

On the other hand, India has a great advantage: she has a great industrial potential. Coal and iron ore are plentiful and their exploitation has only started. Industrialization of India is already in the making and will result in less pressure on the land and more overall income. But

it carries with it all the political dangers of urbanization, it requires considerable amounts of private capital, foreign skills and probably foreign capital. As you may have heard, the International Bank is currently considering a loan for the development of the iron and steel industry, after a mission headed by Mr. George D. Woods, of the First Boston Corporation, had reported favorably on the prospects of this industry.

Ceylon and
Thailand

The question now arises as to why one does not have the same feeling of pressure and urgency in Ceylon and Thailand? Their populations are, of course, smaller: 8 million and 19 million respectively, but the rate of increase is much greater: 2 1/2% in Ceylon, 2% in Thailand. The areas under cultivation now are equal to or smaller than in India and Pakistan if computed per head of population. The reason must be found elsewhere.

I have already mentioned some of the political factors which have an influence, but merely in the economic field, striking differences can be pointed out. In the first place, the standard of living is already higher. India and Pakistan have an income per head of about 60 to 70 dollars per year. Thailand has probably something about 80 to 90 and Ceylon over 120. In the second place, there are in Ceylon considerable possibilities for expanding the cultivable area. In 25 years, given appropriate financing, the area could be doubled by reconquering the Eastern part

of the island which was abandoned to malaria mosquitoes centuries ago. There are also some obvious possibilities in Thailand. But more than anything else, the difference is due to the very structure of the economies.

Ceylon produces only about a third of her rice consumption but she is a large exporting country: cocoa, rubber and tea cover extensive areas and provide considerable income through exports. The same is true of Thailand, now the major rice exporter of the Orient. To speak figures again: exports represent 6% of the national income in India, 7% in Pakistan, 40% in Ceylon and 17% in Thailand. In other words, what is usually termed "dependence on foreign markets" really means assurance of earnings from outside sources.

Very briefly, Thailand and Ceylon enjoy some leeway in terms of standard of life, agricultural development possibilities and foreign trade which are unknown to India and Pakistan. True, market risks are considerable, especially for Ceylon who trades in most speculative goods, but the risk is as grave as a failure of the monsoon in certain areas of India.

This does not mean, of course, that the two smaller countries are not interested in development or seeking foreign assistance to hasten this process. It simply means that they do it in a more leisurely manner, in a less systematic way, and are perhaps not as certain as India or even Pakistan of what their targets should be. Poverty and social conscious-

ness are not ever present to call the government's attention to the need for quick and coordinate action.

III - Means to
achieve develop-
ment

Now as to the means by which these countries are trying to achieve development. Programming of investments, technical assistance and financial assistance.

Programming -
Colombo Plan

One of the common traits of most underdeveloped countries is that their daily problems are usually so pressing that they have little time to look ahead and take stock of their resources, present and future. As a result they find it difficult to work out policies and programs conducive to private investment and public expenditures which would, after a number of years, result in a consistent and integrated economic pattern. No waste can be tolerated in poor countries. Inconsiderate public investments are one of the most frequent forms of waste. Programming is the means to avoid it. The great achievement of the so-called Colombo Plan is that it has stimulated each of the member countries to do just that.

Of all the individual plans now known in some detail, the Indian one is the most complete. It is also reasonable in size and sensible in composition. The Pakistanis are currently working on a program and, as you may know, Ceylon has asked the International Bank to assist them in preparing one. Strikingly, the Colombo Plan countries do not seem to stumble into the usual pitfalls, namely inflationary financing and overindustrialization. As to the first, the

British tradition of sound financing is so engrained in the Treasuries and the Central Banks that there is more orthodox talks and actual practice in this part of the world than in many other more fortunate ones. True, the Indian plan contains a threat that if foreign financial aid is not forthcoming, a so-called "irreducible minimum plan" will be executed anyway, even by inflationary means. This raises directly the problem of foreign financing.

In the field of industrialization, the only country among the three Commonwealth members who is really looking ahead to considerable advances is India. As I have said before, this is justified by her natural resources and ample opportunities.

In a sense, the programs can be termed modest. Production targets allow for hardly more than maintenance of the income per head at its present level. In fact, However, a large part of the investment now being undertaken will not yield results until some years after the end of the first period (1955/56). Furthermore, new investments will be undertaken during the years following 1955/56 which is the first leg of the Colombo Plan. The cumulative effect of these efforts would not become apparent until 8 to 9 years from now. It is hoped that, by then, income will increase more rapidly than population.

The reason why the targets have been fixed at modest levels is that resources are limited; when income per head is at or below 70 dollars per year, one cannot expect savings to run very high. This is why these countries turn to foreign assistance.

Thailand

Before concluding on this point, it may be well to add one word about Thailand. She is not a member of the Commonwealth, not a member of the sterling area, not a member of the Colombo Plan. Her economic position is easier and more prosperous than that of any of her neighbors, she sells her rice surplus at high prices against dollars. True, the need for development is clear here also, but the Commonwealth countries have an advance over her. No attempt has yet been made in Thailand to program according to available resources. A few definite needs have been sorted out: irrigation, power, roads and possibly railroads, and the clearance of the sand bar in the port of Bangkok. Foreign assistance, to the extent that it is provided by organizations like the International Bank, will for a period be necessarily limited to isolated and carefully scrutinized projects.

Foreign Assistance - Technical

All the plans and the declarations of policy of the four governments have insisted on their desire to receive foreign assistance, technical and financial. Technical aid is being provided very largely through the Colombo Plan organization, very largely also through the U.S. Government or such organizations as the Ford Foundation. The fact that India is endowed with a remarkable elite of businessmen and civil servants does not make her less dependent on foreign technical aid than her neighbors. Her great public works and her industrialization require more engineers, managers and foremen than can be trained in the present generation. Fortunately the somewhat chauvinistic and

suspicious attitude which prevailed before independence has changed most remarkably, and foreign advisers - particularly British - are welcome now. Whether it will be easy to insert foreign experts in executive jobs remains to be seen.

Foreign Capital

A similar change as regards foreign capital is also noticeable. For a while the new nationalisms (except perhaps in Pakistan) tended as always to confuse capitalism with foreign influence or interference. While some of this attitude is still apparent in Thailand where much of the business community is Chinese, it is slowly disappearing in India. Controls are being removed one after the other, with the approval of the old friends of Gandhi who had always been a liberal and not a socialist.

As regards foreign capital, some previous utterances of members of the Indian government had been anything but encouraging. Over the last two years efforts have been made to allay the suspicions of foreign capital, and contracts entered into with three oil companies to establish refineries near Bombay appear to be a healthy sign. More of this is needed before there can be said to be a real influx of capital but many barriers have been removed.

But there are a number of tasks which private capital, even if it were willing to take risks in Asia, could not accomplish. It is natural, therefore, that at a time when the United Kingdom finds it difficult to export

capital, these countries should turn to the leader of the Western World and ask for assistance from the United States government and the international organizations. It is also natural that their requests for assistance be very seriously vetted and critically examined, but there is, I think, good cause for saying that such assistance as has been given until now has been justified and well given. The same will undoubtedly have to be true in the future. Finally it is, I think, natural that these same requests be given serious consideration and that development of Southeast Asia should have become a major concern both in the United States and in the International Agencies.

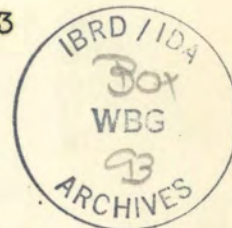
Conclusion

Fifteen years ago if there was a famine in the Punjab or in Madras, London would have been concerned and New York would have been informed. But today the same event is a subject of discussion in the United States Congress, more than that: a subject of action. One reason is, of course, partly that the wheat supply is to be found in this country. Another reason is that by radio and airplanes, catastrophes in Asia seem to be within reach. Finally it is also the inevitable result of your position as a great power. The world has grown smaller, but the United States have somehow grown bigger. Contrary to all historic precedents, your country has become one of the two main world powers without having even wanted it and without even enjoying it. As the leaders of the Western World you are, I am afraid, no more capable of indifference.

Leonard B. RIST

ADDRESS DELIVERED TO
THE COUNCIL OF FOREIGN RELATIONS IN MINNEAPOLIS
January 12, 1953

INTERNATIONAL ECONOMIC PROBLEMS OF 1953



Gentlemen,

. . . . Some words of introduction.

It is only too easy to say that we find ourselves in a period of transition; one of course is always in a period of transition. But some periods are clearly identified because they are influenced by some strong factors. The last seven years have been characterized by the reconstruction of Europe, the reconversion in the United States and the rearmament effort. These factors are progressively losing their value as stimulants and unless we imagine a world conflict, a peaceful period ahead should mean a world which relies on long-term trends only for the expansion of its economic activities. It is, therefore, not a vain expression when we say that the present time is one of transition. We are leaving the period of emergencies and entering a period of slower overall growth. 1953 - and probably 1954 and 1955 - will

witness the passing of the "post-war world" and a new pattern taking shape - and by this I mean a dynamic pattern - of which we already can see the outline.

The three/^{main}chapter heads under which most of the economic problems of today can be classified may be listed as follows:

1. In Europe the period of reconstruction is coming to an end; the desire for financial stability is universal; we are approaching a new stage of traditional commercial competition in international trade.
2. The drive for development of underdeveloped countries is under way, international trade will be more and more affected by this trend. This is a long-term tendency which should provide new and expanded markets for the advanced countries.
3. The U.S. is and remains in a dominant position and therefore its welfare and its internal policies are as important to the rest of the world as its external policies. This central position has thrust upon your country responsibilities which have been usually called "the role of leadership" of the U.S. Such a role is no less important in a period of transition than in a period of emergency.

Let me take these points one after the other.

- I. In the first place, the reconstruction period is nearing its end. This is undoubtedly true of Western Europe, where production is now on the average nearly 150% of 1938 and 140% of 1929. This is considerable but is far from the figures for the U.S. whose production is roughly 2 1/2 times that of 1938 and twice that of 1929. The European figures conceal the extent to which housing is still lagging, ruins are still visible, savings are hard to revive, but they show that on the whole the effect of depression and of the war on income has been more than erased. Income per head is now \$700 in England and \$600 in France, which is in real terms roughly 15% above the level of 1938. Here again developments in the U.S. have been much more favorable: in comparable dollars, per capita income is now around \$1800 against \$1000 in 1938, an 80% improvement. In other words, while this country has become considerably richer, Europe has, on the whole, in the better cases, managed to reach a little more than its 1929 position.

This considerable economic activity expressed itself in full employment - except in Italy and in Germany - and was supported by the addition of U.S. resources through the Marshall Plan and other assistance schemes, and in most countries by internal inflation.

Its main incentive was the need for speedy reconstruction; this is now receding in the background. Almost in every country there is a longing towards monetary stabilization. The Belgians, much less affected by war events than others, preceded everyone else in this field. The Germans, who had to emerge from chaos, achieved a considerable degree of stabilization long before they had restored their ruins. The Italians and the Dutch, too. Britain and France, more complex economically and politically, strive now towards stabilization and convertibility and Britain has undoubtedly made great strides in this direction. In fact, the stabilization efforts, coupled with a decline in the effects of the Korean war, have been accompanied by a slowing down of economic activity, or at least a slowing down of the growth of economic activity. The past eighteen or twenty months have shown little or no advance in production, some unemployment has even, for a while, occurred in Britain and Belgium for instance. At the same time, rearmament is taking its share of the nations' resources. In short, Europe is now characterized by three features: full employment (except in Italy and Germany), high level of production but without marked changes over the last two years, an increasing fraction of the national resources ^{going} / to rearmament instead of increasing consumption or productive investment.

It may be noted in passing that the picture in the

United States is hardly different.

With the virtual termination of reconstruction proper, U.S. aid is fading away, except in the military field. Since a reduction in the consumption level at this stage would be socially harmful in most countries, the most that can be done in practice is to keep further increases in consumption to a minimum, but this may not be enough to prevent a reduction in investments. Such a reduction cannot be drastic nor can it be accepted lightly since this may mean that tomorrow the increase in production and productivity will also be slowed down. Under such conditions public credit ought to be restored. But if this should fail and if the slack in public investments should not be matched by such an improvement in private savings that new private investments take place continuously without government assistance, the present trend towards reducing public investments may only be short-lived.

On the increase of production and productivity rests the future of Europe. No market can be maintained unless prices are competitive, none can be expanded unless the exportable volume increases and Europe needs to export to live. It needs exports much more than before the war, in the first place because it has lost a large part of its own investments abroad, in the second place because its terms of trade have on the whole deteriorated. The food and raw materials it has to buy have risen more

than the prices of the manufactures it can sell. This would be enough to make it difficult for Europe to earn the imports she needs without foreign aid but in addition two countries in Europe must by necessity become exporters of capital if they want to satisfy part of the capital needs of the parts of the world which depend on them: the U.K. and France are the great providers of capital for the British Commonwealth and their Overseas Territories. This position they can only maintain if they develop a surplus in their balance of payments. In other words, to them still more exports of goods and services are of paramount importance. Thus, the desire for stability, the forthcoming disappearance of foreign aid and the obligation to furnish capital abroad would in any case force European countries to export more and more. Were there no other elements, one could already say that we are entering an era of traditional competition in international trade. But a very striking event took place in 1952 which is likely to make this competition even keener. Perhaps the world at large is not yet clearly aware of the meaning of the re-emergence of Germany and Japan in the field.

Immediately after the war, when every country had its reconstruction problems, Britain was the one big industrial power which relied heavily on raw materials from abroad and exported its own labor in the form of

manufactures and semi-manufactures. And indeed the U.K. has achieved the admirable result of exporting in volume 80% more than in 1938 without increasing the volume of its imports. (In France which is much less dependent on foreign trade, the volume of exports has increased roughly in the same proportion but there has been a slight increase in imports.) But today we have two more big industrial powers as dependent as Britain on foreign trade: Germany and Japan. The two newcomers are both hard traders and aggressive exporters. Both had in 1951 recovered nearly half of their pre-war share in world exports. To make matters worse, the added competition will be concentrated on the same part of the world. Whether it be for the acquisition of raw materials or for the sale of their products, Germany and Japan used to have major commercial relations with what is now termed "the East". The present world political position limits their sources of supplies and their outlets substantially to the free countries.

In short, accidental incentives are disappearing, long-term trends must be relied upon and the problem is now whether an expansion of exports can be great enough to lend to European countries the new incentives which they need lest reconstruction be followed by stagnation.

II. The most hopeful signs in this respect are (a) the repeated suggestion that the U.S. may open its frontiers more liberally than in the past - to this subject I will return later - and (b) more important at this stage: the new demands which now arise from the developing countries.

Why is the problem of development so much in the public eye at present ? Is it not true that it has been going on for centuries ? That the process followed in the North American continent, for instance, did not require organized foreign financing, and that there was much less philosophising about its implications or methods in the XIXth Century than now ? Is it not true that in all so-called "underdeveloped" countries development is going on in any case and has been going on for a long while ? Why should India or Colombia or Brazil talk of development as if it were something new ? Don't they have a steel industry in India, good agriculture in Colombia, heavy industry in Sao Paulo ? The answer to that is partly psychological, partly sociological, and partly economic. What is at stake

is not development itself but the desire for an acceleration of the process.

The 20's were a period of expansion. Even though the coffee growers in South America, like the wheat growers in the United States, may have felt that their former prosperity was threatened. Innumerable other opportunities were offered to their initiative; there was a flexibility in the social structure, a possibility for individuals to change trade and employment, and on the whole the prospects of tomorrow were brighter than the conditions of today. At the same time, education was spreading and due to more reading and more public discussion, people of all classes became aware of conditions in the rest of the world. They could improve their own status, their own skills thanks to higher technical training. Development was then taken for granted. Then the depression came on. The effects of it on raw materials producing countries - and most underdeveloped countries fall into this category - were disastrous. The world had grown smaller thanks to airplanes and radio and the underdeveloped peoples became aware of two things at once: first, the extent to which they were dependent on prosperity elsewhere, which is readily accepted when the trend is up but resented when it is down; second, the extent to which their standards of life were different from those of other peoples. The progress of transportation and communications which has

been the feature of the world after the first World war was not stopped by the depression and the shrinking of the world to more human dimensions continued in spite of the fact that standards of living had gone down. With the end of the depression and the second World war, the solidarity of the free world had become self evident and the place of the underdeveloped countries, even of those who had had no direct share in the war, affirmed itself. Most Latin American countries, for instance, regained prosperity thanks to the increased need for their products. Their people clamored for a quicker pace in developing their resources and improving their standard of living. This trend was even accentuated in the post-war period. This was the position of the poorer ones.

But the richer and more advanced communities on the other hand are preoccupied by two main thoughts: they do not want poverty and misery to upset the social structure of their/^{weaker}neighbors. In addition, for their own direct benefit, they want more international trade and more of the products which can be obtained cheaper abroad than on their own territory. If this can be done, the same underdeveloped countries become better customers. It is therefore the interest of the more advanced group that underdeveloped countries should exploit their own resources, become richer, better consumers and bigger suppliers.

Such are the reasons why development became such a slogan and why it is bound to remain so.

Now what prevents development from taking place as quickly as is wished for by so many people ? It is an unfortunate fact that poorer nations grow slower than richer ones. If it is remembered that income per head in India is around \$70 a year, that in Latin America (except Argentina) it ranges roughly between \$100 to \$250, that in Europe it varies between \$270 for Italy to over \$700 for Britain and that in the U.S. it is some \$1800 a year, it is quickly apparent that:

- a) the capacity to save - and therefore invest and increase production - is lower in underdeveloped countries;
- b) that in many cases the markets for new production are limited by the very poverty of the population.

In addition, almost natural limitations arise from the lack of skills, the lack of management experience for new enterprises and sometimes the lack of satisfactory administrative mechanisms.

This background explains much of the difficulties the countries in question have to contend with, even when their territory has plentiful natural resources. They have to accept that a substantial fraction of their new production will be for export - export markets being often more expandable than their internal market. They have to call on foreign capital and foreign knowhow and foreign management. They have to create the institutions which can be conducive to new investment and recruit for

their own administration brains capable of dealing with difficult economic technical or financial policy issues.

This is not the place to go into the internal aspects of this problem and to detail how improvement can be brought about locally and how foreign technical assistance can hasten these improvements. I would rather concentrate on the international/^{financial} aspect, keeping in mind, however, that foreign assistance - except in colonial territories - can never be more than a marginal element.

Traditionally, the means by which development has taken place is a combination of initiative, efforts and sacrifices on the part of the developing economy and foreign assistance in all its forms, mainly private capital. Your country relied heavily on European financing until World War I for its industrial, transportation and even occasionally irrigation development. It is estimated that foreign private long-term investment in the U.S. was nearly \$7 billion in 1914 and is now over 9 billion. This is not flight capital, but genuine investors' money.

Why, it may be asked, can such a process not be expected to repeat itself for the underdeveloped countries today? The reasons are twofold. The picture of the world which is hoping to receive foreign investment is substantially different from what it was in the heydays of British financial expansion, and the world which could spare resources for foreign investment

has changed too.

As to the first, is it necessary to repeat that the well known obstacles to foreign capital imports ? The risks of exchange and transfer difficulties, internal and external, political complications, including threats of nationalization, or war dangers are considered so serious in many cases that they could only be offset by the prospect of high profits.

As to the second, the "creditor nations". Their list has dwindled and is limited now largely to the U.S. and to a much smaller degree the U.K. and Switzerland. France comes into the picture^{mostly} as a provider for its overseas territories. Even in the U.S. the concentration of a large proportion of savings in the hands of institutions which in fact must act as trustees and shy away from risk, insurance companies, savings banks and retirement funds, limits to a small number the individual savers who make autonomous decisions about their own money. In fact most of the direct investment undertaken abroad in recent years was due to large corporations who want either to diversify their sources of supply or to establish new markets for their own products. In addition, in a large number of cases, the very type of investment which the underdeveloped country needs is not generally suited for purely private financing. Private enterprise might be attracted by mining or manufacturing and even plantation type

agriculture but provided the basic services are available. Rarely will the enterprise be large enough to spend money on transportation or power. These facilities must be provided by the State or at least under state control. And they are a prerequisite for development of any kind. This means financing the state or with its guarantee.

As a result the means of financing development had to be channelled or at least sponsored by the government of the creditor countries. The U.K. allowed Commonwealth countries to float loans on the London market and released sterling balances for the same purpose. It also made some grants to colonial areas. France operated mostly through grants to her colonies or through normal banking channels. Switzerland allowed some government loans to be floated on her market. In the U.S. the foreign bond floatations were exceedingly rare and small since the war. Most of the financing was done through the government itself (in loan or grant form) or through the Export-Import Bank which also relies on government money.

The International Bank deserves here a special mention. Capital subscriptions of its member countries in which the U.S. participates for more than 30%, provided a cash basis of \$750 million in dollars and \$1.055 million in other currencies which are progressive-

ly being released for the Bank's lending operations. In addition, the same participating governments guaranteed the borrowings to be made by the Bank. Consequently the private savings which are invested in our bonds - now a total of \$673 million, of which \$610 million issued in the U.S. - can count not only on the value of our assets but on the guarantee of our member governments. As far as the U.S. is concerned, this guarantee obligation reaches over \$2.5 billion. The other 53 governments share among themselves a guarantee obligation of \$4.2 billion.

Thus, by inserting the guarantee of the governments member states including the creditor countries between the investor and the foreign investment, a device has been found which spreads the risk among the participating governments and practically eliminates the dangers usually associated with foreign investments.

But the Bank's lending operations - now over \$1.5 billion - are limited to loans to governments or under government guarantee and do not satisfy the need for more equity or venture capital in underdeveloped countries or for loans to private enterprises without government guarantee. Several proposals have recently been made to facilitate this type of capital export. I shall only mention the principal ones: a) an International Finance Corporation would be created which would receive capital from governments and would invest it

in participation with private capital in productive enterprises in underdeveloped countries but without government guarantee. The proposal originally made was that this corporation be placed under the management of the International Bank.

b) U.S. government guarantees to private investment. The proposal is that the system which is now in existence and which at present covers only \$30 million be enlarged and should cover other than transfer and nationalization risks.

c) Tax incentives to private investment abroad.

Whether any of these proposals will ever be carried out is open to question. What they reveal, however, is that a greater and greater interest is being shown towards assisting the U.S. investing public in taking risks abroad. A part of it may go to old countries in Europe, but another part to the underdeveloped countries. They indicate that the wish to hasten the process of development is shared by all countries including the most advanced ones.

I have referred to economic development as a long-term trend. All the efforts made now by the U.S., by Europe and by the International organizations to hasten this process by providing financial or technical assistance will be slow to produce results.

Internal reforms,

including the control of inflation, internal savings, technical assistance, foreign loans for basic facilities or capital imports for expanding production, all these take time to bear their fruits. But the fact remains that unless the process is abruptly interrupted by a world depression or a world conflict, the trend is upwards. Contrary to what we can predict for Europe, the rate of growth in the underdeveloped areas will not decline. It is more likely to rise. And the long-term trend is thus towards more international trade between the advanced countries and those who need capital goods and can provide raw materials and food. The prospects are that as development progresses the range of ^{commercial} exchanges should cover an ever increasing variety of goods.

III.

The picture we have drawn till now indicates the scope of the changes in structure the world is facing. In order to consolidate the standard of living it has so painfully regained, Europe must expand its exports. It must do so in a free world smaller than before the war. Since it has been impoverished by the war and is already preparing for a possible new one, it must sacrifice some of its home production in favor of rearmaments and foreign markets before all the ruins have been fully rebuilt. The trend towards development in the other areas of the world should progressively -

as their own structure improves - provide the markets and supplies which Europe needs. At this very moment the shift of emphasis from reconstruction to long-term slow expansion is taking place. Can this bridging-over period pass without too much pain? Can the U.S. remain indifferent to the manner in which the transition will take place? Is that what the proposals aiming at the elimination of foreign aid mean?

As you all know, the U.S. occupies now a central position in the free world. I am fond of saying that not only has the world grown smaller but the U.S. has grown larger. Your national interests extend from Germany to Korea and you cannot seriously disregard any free country anywhere. More than that, you are among the belligerent countries of World War II the only one who - in spite of its losses - has really grown richer in productive capacity and in income. You are the only country which is strong enough to undertake leadership in the rearmament effort and carry it through to the tune of over \$60 billion a year without breaking the back of your economy. You have remained a creditor country and considerably increased this position since the war. In 1939, both your investments abroad and foreign investments here amounted to \$12.5 billion. Net, they cancelled out. At the end of 1951 your investments abroad were nearly \$37 billion, while foreign

investments here - both at long and short term - did not quite reach \$21.2 billion. Your net creditor position was over \$15.5 billion. If you add to this credit all the amounts you have made available since the war in grant form through UNRRA, the Marshall Plan and the numerous special or technical assistance programs some \$20 billion altogether, irrespective of military aid is the extent to which American resources have been placed at the disposal of world economy after the war. And this has been possible without slowing down either your reconversion or the rearmament program. The transfer of these resources was expressed in the balance of payment surplus of the U.S.

Your goods have become necessary to the world to an extent which is not matched by the need you have of other peoples goods. The dollar gap is just that. You are, it is true, the largest importers of aluminum, bauxite, manganese, chromite, tin, lead, zinc, newsprint, coffee, sugar, rubber. But you are also - I should say again - because this was not quite as true during the depression - a considerable source of food and raw materials to the outside world, quite aside from machinery and consumption goods. Your wheat and cotton exports alone amounted to \$2.5 billion in 1951. Without these the world cannot continue to feed ^{itself} or run its industry today. Your foreign loans and grants have

placed into the hands of your customers the means to buy these things. Thanks to the progress made since the war part of them they can now produce without calling on your assistance. But does that mean that they can soon earn them and not receive them on credit or as a gift ?

Opinions differ on this. The more pessimistic, looking at past performances and the new widening of the dollar gap in 1951, look towards continued assistance from the U.S. or at least continued discriminatory measures against U.S. goods to maintain the present precarious balance. Others, considering the distinct downward trend of the dollar gap over a period of years, feel that while no one measure can possibly eliminate it, a balance is in sight provided:

- monetary policies in Europe keep imports at a low point, and this means internal stability as well as possibly some cost adjustments, some would say exchange rate adjustments. A change in the price of gold is sometimes advocated as one means of making this easier.
- military assistance is not discontinued but maintained and if anything made more flexible;
- the U.S. follows a policy of lower tariffs and takes in more foreign imports;
- U.S. exports of capital in every form are stepped

up to the point where European suppliers can earn some dollars in international trade with the underdeveloped countries.

If I were hard pressed, I would probably confess that I am inclined to agree with the more optimistic view provided there is not an abrupt stoppage in foreign aid to Europe but a smooth change over.

My main reason for this attitude is that requirements of the European countries for internal reconstruction purposes are bound to grow still smaller, allowing Europe to concentrate on fostering exports while development should provide a wider market.

It is natural that the prosperity of this country should have become a matter of major concern to the whole world. I shall not dwell on this point.

The position of the U.S. is not very different from that of Europe in this sense that the progress of the economy since the war was largely due to reconversion and rearmament and also but to a much smaller extent to foreign aid. Reconversion is over, armament expenditures are here to stay but are not likely to expand further. If anything they will probably decline after a while. The internal market which cannot fail to expand in the long-run, and to a smaller extent the export market, will have to provide the incentives if the activity is to grow further. The prospects here

like in Europe are for a slower rate of growth and both internal and external competition will become keener.

But even an expanding and sound economy is liable to suffer so-called "readjustments" - we had an example in 1949. However optimistic the rest of the world can be as to the ultimate development of the United States economy, they watch its month to month evolution with great care. They know that even a slight recession here may mean disproportionate effects abroad. Raw materials prices have now on the whole declined to a level which is in the neighborhood of pre-Korea; the windfall which some underdeveloped countries have benefitted by has disappeared. A small diminution in U.S. activity would mean a sizeable diminution in exports from these countries and from Europe also for that matter. This is one more reason why the rest of the world feel so dependent upon the United States of America. Not only have the policies of your country a great influence on their future, but what affects your daily life affects theirs more brutally.

Conclusion

It is inevitable that during the transition to a competitive world where the long-term hopes are linked to the progress of underdeveloped countries, the eyes would turn again to the most powerful partner of the Free World, and people should ask whether the indis-

pensable policies to be followed in the U.S., i.e. more liberal trade policies and further encouragements to capital exports, including encouragement to the lending operations of the International Bank, will be followed with energy and consistency.

In the picture I have tried to draw for you the so-called advanced world will have to fall back more and more on long-run stimulants - population growth, productivity, rise in income and distribution of income - to replace the stimulation of war and post-war emergency. A welcome addition will be the stimulation due to the progress of the underdeveloped countries. Just as in the internal economy of any country changes in structure can be facilitated by credit and savings, the international adjustments can be eased by movements of capital. If I placed so much emphasis on them, it is not so much because this is my trade but because they constitute, I think, a tremendously important marginal element not only to cover deficits of a temporary - may I say again transitional - character, but even more constructively for the all important purpose of building up the new world now in course of development.

BANQUE INTERNATIONALE POUR LA RECONSTRUCTION
ET LE DEVELOPPEMENT

Discours prononcé par M. Léonard Rist, Directeur de la
Division économique de la Banque Internationale pour la Reconstruction
et le Développement à la réunion de la Societa Internazionale per la
Organizzazione Internazionale,
Rome, le 18 avril 1953

Messieurs,

Je suis profondément sensible à l'honneur que m'a fait la Société pour l'Organisation Internationale en me demandant de parler ce soir. L'intérêt que porte votre pays à ce sujet est, je le sais, soutenu et vivace et mon espoir aujourd'hui en vous parlant d'une institution internationale à laquelle vos représentants ont participé avec autorité et efficacité est seulement de vous confirmer combien votre intérêt est justifié.

Ce que vous attendez de moi, je le présume, c'est de vous décrire le rôle de la Banque Internationale. Je voudrais essayer de le faire en vous présentant d'une part les principes qui servent de base à nos activités et d'autre part les problèmes auxquels nous nous heurtons et les solutions que nous tâchons de leur donner. Le nom même de notre institution, Banque Internationale pour la Reconstruction et le Développement, indique bien les préoccupations essentielles de ses fondateurs: aider à l'élimination des ravages de la guerre, aider à l'expansion économique sous toutes ses formes, en particulier dans les pays et les régions sous-développés. Le moyen principal par lequel cette aide doit être impartie par nous ce sont les mouvements de capitaux. Mais il vous apparaîtra j'espère, au cours de mon exposé, que nous avons tenté d'élargir cette conception et de fournir notre aide sous des formes peut-être moins financières mais bien nécessaires.

Pendant tout le XIXe siècle et jusqu'à la deuxième guerre mondiale, les transferts de capitaux entraînés par les mobiles si forts et si persistants de l'initiative individuelle et du profit, ont rendu des services que l'on n'a jamais appréciés suffisamment. Si, par la masse des fonds mis en mouvement, l'Angleterre et la France d'abord, puis plus récemment les Etats-Unis, ont occupé le premier rang, d'autres pays n'en ont pas moins joué un rôle de grande importance. Je pense à l'Italie, la Belgique, l'Allemagne et bien entendu à la Hollande, à la Suisse et à la Suède.

La crise de 1930 déjà, et la seconde guerre mondiale plus récemment, ont révélé que les éléments de risque que comportent les opérations de financement international n'étaient pas aisés à juger à leur juste mesure. Il est naturel qu'à une époque où dans la plupart des pays

la monnaie n'est pas convertible, où les transferts de capitaux, et même parfois le transfert du service des capitaux étrangers investis sur le territoire, sont soumis à un contrôle, à une époque où les chances de conflit - armé ou non - ne paraissent pas aussi éloignées qu'après la première guerre, le capitaliste privé hésite à s'engager seul, sauf dans les domaines où la prospérité et la paix semblent le mieux assurées. Dès avant la fin de la guerre, ceux qui s'efforçaient d'imaginer les problèmes de la paix, se rendirent compte que les besoins seraient immenses, mais aussi que l'économie privée ne pourrait probablement pas les satisfaire entièrement et qu'il serait aussi injuste qu'inefficace de chercher à contraindre l'épargne privée à prendre des risques qu'elle-même n'estimait pas justifiés. De là naquit le concept de la Banque Internationale, fondée à Bretton Woods par les accords de 1944, et dont le Conseil se réunit pour la première fois en Mai 1946 à Washington.

L'idée fondamentale est la suivante: les gouvernements qui la composent souhaitent voir se développer des mouvements de capitaux, mais ils constatent que si l'épargne privée doit en être à la longue la principale source, certains risques sont de nature à la décourager. Ils constituent donc une coopérative de crédit et lui apportent d'une part des fonds liquides et d'autre part un engagement de garantie destiné à rassurer le capitaliste privé.

La coopérative de nations qu'est la Banque comprend actuellement 54 membres, les mêmes que ceux qui constituent le Fonds Monétaire. Les principaux gouvernements qui ne figurent pas parmi nos actionnaires sont: l'Union Soviétique, la Suisse, l'Espagne, le Portugal, l'Argentine, la Nouvelle Zélande, Israël, et les pays danubiens. La Pologne a fait partie de la Banque à l'origine et s'en est retirée depuis. L'Indonésie et Haïti, qui ne sont pas encore membres, ont exprimé leur intérêt à plusieurs reprises.

La Banque Internationale et le Fonds Monétaire sont les deux seules institutions internationales où le droit de vote n'est pas égal pour tous les participants, mais proportionnel à leur souscription. Comme le montant des souscriptions est déterminé sur la base des capacités financières et économiques de chaque état, il en résulte que les charges et les responsabilités les plus lourdes sont échues aux pays que, faute d'un meilleur terme, on peut appeler les plus riches. Ainsi par exemple, les Etats-Unis ont un peu plus du tiers des voix, l'Angleterre environ 13%, l'Australie, la Belgique et l'Italie un peu plus de 2%. Permettez-moi d'ajouter aussitôt que pendant les sept années de son existence la Banque n'a pas eu de division des votes et que les décisions ont toujours

été prises à l'unanimité.

Ainsi réunis en coopérative les 54 pays ont commencé par mettre à la disposition de la Banque une contribution en espèces. Elle s'élève à \$1.807,3 millions, soit 20% de leur souscription totale. Sur ce montant, une somme de \$1.626,6 millions (soit 18%) a été versée en monnaie nationale et le solde, \$180,3 millions (ou 2%) en dollars ou en or. Comme la souscription des Etats-Unis est en dollars, le montant du capital liquide effectivement en dollars ou en or atteint au total \$152,2 millions. Le reste, soit l'équivalent de \$1,055,1 millions est libellé dans les monnaies respectives de chacun des pays membres autres que les Etats-Unis.

Dès l'origine, on prévoyait que de nombreux pays ne désireraient pas encourager les exportations de capitaux alors qu'ils en importaient eux-mêmes pour les besoins de leur propre reconstruction et de leurs investissements; aussi une clause fut-elle insérée d'après laquelle l'utilisation des souscriptions en monnaie nationale est soumise à l'autorisation du pays dont la Banque désire prêter la monnaie. Les Etats-Unis et le Canada nous ont donné une autorisation générale concernant la totalité de leur souscription espèces; trente autres pays nous ont donné, souvent sous réserves, des autorisations totales ou partielles. Je reviendrai plus loin sur l'intérêt que présente la possibilité d'emprunter des monnaies autres que le dollar et sur le rôle que joue à cet égard le capital dit "18%".

Les souscriptions en espèces ne représentent cependant que 1/5 de notre capital souscrit, les 4/5 restant sont un engagement de garantie. Il est exigible dans n'importe quelle monnaie mais seulement pour couvrir les obligations propres de la Banque si elle ne peut y faire face par ses moyens courants. Son but est de permettre à la Banque de bénéficier du crédit de tous ses états-membres, y compris les plus solides pour faire appel aux capitaux privés. Les émissions d'obligations qu'elle peut ainsi lancer représentent des montants sensiblement plus considérables que son capital espèces. Elles s'élèvent à l'heure actuelle à 510 millions de dollars émis aux Etats-Unis et 57 millions de dollars au Canada, en Suisse et en Angleterre. Les souscripteurs privés sont assurés que le crédit de l'institution restera toujours très élevé puisqu'en représentation de leur apport nous avons non seulement les prêts que nous avons consentis mais encore la garantie de tous nos états membres même s'ils ne sont pas emprunteurs.

Ainsi dans ses opérations la Banque a une triple responsabilité, l'une envers ses obligataires, l'autre envers ses actionnaires d'abord en tant que souscripteurs en espèces et également en tant que garants des obligations émises par elle.

En résumé, le capital de la Banque se compose aujourd'hui d'un montant total de \$9.036,5 millions. Sur ce montant 80% représentent l'engagement de garantie dont je viens de parler, 2% la souscription espèces de tous les Etats en or ou en dollars et 18% la souscription en espèces en monnaies nationales que la Banque peut utiliser si elle obtient l'accord de l'Etat souscripteur.

Dorénavant la Banque pour augmenter ses ressources devra les retirer soit de l'utilisation plus large du 18% de souscription des pays non-dollar, soit de ses bénéfices, soit enfin d'émissions d'obligations.

Une ressource supplémentaire lui reste, qui a pris une importance croissante. C'est la vente par la Banque des titres qui figurent à son actif, les reconnaissances de dettes que lui ont remis ses propres débiteurs et qu'elle possède en portefeuille. Jusqu'à présent, un montant de 67 millions de dollars de ces obligations a été ainsi cédé au marché, dont 47,1 millions avec la garantie de la Banque Internationale et 20,6 millions sans cette garantie. Dans la mesure où la Banque a pour but de ranimer le marché privé des placements à l'étranger, et c'est là un de ses objets principaux, ce type d'opérations entre directement dans ses fonctions et devrait constituer, si nos espoirs se réalisent, un stimulant précieux aux mouvements de capitaux spontanés.

En vous énumérant les ressources dont la Banque peut disposer pour ses prêts, j'ai mentionné les bénéfices accumulés. Ils comprennent d'une part une réserve générale de l'ordre de 70 millions et d'autre part une réserve dite "spéciale", de plus de 32 millions de dollars, qui mérite une remarque particulière.

Les statuts de la Banque lui imposent, tout au moins pendant les dix premières années, l'obligation de prélever sur le service de ses prêts une commission spéciale qu'elle est libre de fixer entre 1 et 1-1/2% par an. Cette commission doit s'accumuler dans le fonds de réserve spéciale dont j'ai parlé et être placée de manière à être toujours disponible pour couvrir les pertes éventuelles que la Banque pourrait encourir sur son portefeuille.

En pratique, la commission prélevée est de 1%; elle s'ajoute à l'intérêt payable par le débiteur. C'est peut-être ici le lieu de dire un mot du mode de calcul adopté dans la fixation des taux appliqués à nos prêts. La Banque n'a pas jugé possible de faire de discrimination entre ses emprunteurs en ce qui concerne le taux d'intérêt. Ce taux est calculé pour chaque nouveau prêt de la manière suivante: nous connaissons le prix auquel nos obligations sont cotées, les échéances en sont suffisamment variées pour donner à la Banque une idée précise du prix auquel elle pourrait se procurer des fonds pour une période comparable à celle que devra couvrir le prêt auquel elle consent. Une légère marge y est ajoutée pour contribuer aux frais de la Banque et la commission spéciale de 1% s'ajoute en sus. Il en résulte que les derniers prêts que nous avons consentis portent des taux d'intérêt, commission comprise, variant de 4-1/8% à 4-7/8% selon leur échéance.

Telles sont nos ressources présentes et à venir, telles sont les conditions financières auxquelles nous accordons des crédits. Voyons maintenant quelles sont les opérations de prêt que la Banque a entreprises.

Le total des contrats signés par la Banque s'élève actuellement à 1.588 millions de dollars. Déduction faite des annulations et conversions, le total net des prêts accordés s'élève à 1.557 millions de dollars. Voilà les chiffres; ils sont importants si l'on considère qu'ils constituent le résultat de six ans d'activité et qu'ils vont en s'amplifiant; le rythme actuel de nos engagements étant de l'ordre de 300 millions de dollars par an.

Une question nous est fréquemment posée à cet égard. Quelle est l'importance relative des opérations de prêt que nous faisons dans l'ensemble des mouvements de capitaux internationaux? Plus particulièrement puisque la majorité de nos prêts a été consentie en dollars, quelle est l'importance relative des exportations de capitaux américains facilitée par la Banque par rapport à l'ensemble du dollar gap. Les quinze cents millions de la Banque représentent à peu près 15% des sommes apportées par le Plan Marshall à la reconstruction européenne. Nos trois cents millions annuels ont représenté environ deux cinquièmes des exportations de capitaux privés américains à l'étranger faites sans le concours de la Banque, pendant les deux ou trois dernières années. Dans ces conditions, nous dit-on, la Banque joue-t-elle le rôle que l'on attendait d'elle?

Il est de fait que les rédacteurs de l'accord de Bretton Woods n'avaient pas une notion exacte des besoins de la reconstruction. C'est seulement après la cessation du conflit que l'immensité des ruines est apparue claire-

ment. Mais il devint clair en même temps que les capacités de remboursement des pays ravagés ne suffiraient pas à justifier des crédits aussi amples que leurs besoins. Des dons s'imposaient pour un temps limité! Il fallait aussi un acte de gouvernement audacieux de la part d'une nation généreuse. Or le but de la Banque Internationale n'est pas de combler le déficit dollar du monde. Elle peut contribuer à cette tâche mais n'est pas destinée à l'accomplir seule. Son but n'est pas non plus de faire des dons mais seulement de faire des crédits remboursables. Enfin son but n'est pas de prendre des participations actions dans des entreprises privées minières ou industrielles, qui constituent la masse des exportations de capitaux privés américains. Notre but est de satisfaire les besoins de crédit légitimes des Etats dont la capacité de remboursement est satisfaisante. C'est la continuité de son rôle qui importe plus que la masse de ses opérations à un moment de crise. Demain comme aujourd'hui, quelle que soit la politique d'aide extérieure d'un gouvernement particulier, elle peut satisfaire les besoins fondamentaux de ses membres que d'autres sources ne peuvent financer. Ce qui compte aussi c'est le rôle de catalyseur qu'elle peut jouer en aidant les investissements considérés comme essentiels et dont la réalisation peut seule entraîner l'épargne privée locale et étrangère à s'investir dans des entreprises productrices.

Pour transférer ces principes généraux dans le concret, je voudrais maintenant vous exposer plus en détail pour quelles raisons nous avons accordé les prêts dont j'ai parlé et quels sont les éléments que nous prenons en considération lorsque les contrats sont passés.

Lorsqu'une demande d'emprunt nous est présentée, nous sommes tenus de considérer surtout trois questions: 1) Dans quelle mesure la nation emprunteuse a-t-elle vraiment besoin d'un emprunt? 2) le produit en sera-t-il utilisé à des fins productives? et 3) pouvons-nous raisonnablement escompter que le service sera effectué régulièrement?

Permettez-moi de reprendre ces questions une à une.

La Banque ne cherchera jamais à pousser un Etat à emprunter en devises étrangères. Elle considère que c'est là un moyen extraordinaire qui ne se justifie qu'au cas où les autres moyens feraient défaut. Elle n'a pas le droit non plus - ses statuts sont formels sur ce point - de prêter lorsque d'autres sources de fonds sont accessi-

bles à des conditions "raisonnables", ce qui veut dire qu'elle ne se mettra jamais en compétition avec le marché privé dont, au contraire, elle cherche à développer l'activité. Le jour où grâce à nos prêts une nation aura atteint un crédit suffisant pour emprunter directement sur le marché, nous estimerons avoir accompli notre tâche. La notion de besoin s'identifie donc avec les intérêts du pays emprunteur. C'est là une des raisons pour lesquelles nous examinons avec soin les politiques financières et économiques suivies par les pays membres avec l'espoir de déceler si par des moyens moins onéreux que l'emprunt extérieur ces derniers ne pourraient pas arriver à leurs fins. Nous définirions plutôt les besoins comme étant la nécessité d'un apport de ressources extérieures. Nous finançons donc des besoins en devises étrangères, plus spécialement ceux qu'entraîne un ou une série d'investissements.

Ceci nous amène à la deuxième question, à savoir que la Banque ne peut prêter que pour des fins productives. Nous pouvons trouver naturel qu'un pays envisage sans trop d'angoisse une rupture de l'équilibre de sa balance des comptes pour une période limitée, mais alors nous devons postuler que pendant cette période les investissements s'accroîtront, que la production sera accélérée et qu'à la fin de la période le même état se retrouvera avec un revenu national accru et une balance des comptes mieux assurée (il est indispensable, en effet, de lier l'un à l'autre) et que, par conséquent, la charge de la dette extérieure sera couverte par l'amélioration de la structure économique générale. Il ne serait pas raisonnable que la Banque acceptât de financer purement et simplement une augmentation du niveau de la consommation. Si cette augmentation était fondée seulement sur l'assistance extérieure et n'était pas accompagnée d'un accroissement de la production et de meilleures perspectives de la balance des comptes courants, l'Etat emprunteur se trouverait, après avoir épuisé les fonds d'emprunt, dans la situation même qui l'a poussé à recourir à l'étranger.

Je ne veux pas entrer ici dans tous les détails des problèmes que pose pour nous cette notion d'investissement productif. Qu'il me suffise d'indiquer qu'elle a été interprétée par la Banque de la façon la plus large. Pour la France et la Hollande, bénéficiaires des deux premiers emprunts consentis en 1947 par la Banque, il s'agissait de reconstituer les stocks de ces pays alors au début de leur reconstruction et de maintenir un courant normal d'importations non seulement de machines mais même de matières premières pour permettre à la production de continuer et de s'accroître. Pour la plupart des autres pays, il s'agit d'importations de biens d'équipement proprement dits, liés soit à un programme général

- c'est le cas de nos prêts à l'Australie - soit à des projets précis et approuvés par la Banque.

Les locomotives envoyées aux Indes ont permis d'accélérer sensiblement le rythme des transports. Les programmes d'équipement ferroviaire que nous finançons en Colombie, au Pakistan, en Afrique du Sud et en Rhodésie du Nord ont le même but. Il en est de même de l'équipement portuaire que nous finançons en Turquie, en Thaïlande, ou des routes de Colombie. Dans 14 pays nous avons largement financé la production électrique pour faire face aux besoins existants et encourager l'établissement de nouvelles industries. L'équipement agricole que nous avons financé dans 7 pays, le programme d'irrigation auquel nous nous sommes intéressés en Thaïlande, aux Indes et en Turquie, ou les entrepôts que nous aidons à établir au Nicaragua et en Turquie doivent améliorer la quantité et la qualité des produits agricoles qui sont la richesse de ces pays. Les hauts fourneaux et aciéries que nous finançons aux Indes représentent une production bon marché d'un produit indispensable à ce pays. Le barrage que nous finançons sur le Tigre en Irak doit mettre fin aux inondations périodiques qui sont un désastre pour Bagdad et ses environs. Remarquons en passant que, dans la plupart des cas, ces investissements apporteront une contribution directe à l'économie interne, mais indirecte seulement à leur balance des paiements. Ce n'est donc pas la rentabilité en devises étrangères des investissements qui nous sont proposés qui constitue le criterium essentiel, quoique dans les pays à déficit persistant ce soit un élément important. C'est plutôt la contribution qu'ils apporteront à l'économie générale et les effets plus lointains que le développement de cette économie aura sur l'équilibre extérieur du pays.

Un problème très intéressant se pose à cet égard de plus en plus fréquemment. Dans les cas que je viens de citer l'urgence des dépenses à faire était évidente. Mais la plupart des pays sous-développés ambitionnent très naturellement d'accroître leur outillage dans des branches très variées. Leur capacité d'emprunt n'est pas illimitée, il faut aller au plus pressé en premier lieu. Il faut aussi tenir compte du fait que si ces ressources extérieures leur permettent d'entreprendre certains projets, des ressources intérieures se trouveront par là même libérées et pourront s'investir dans des projets peut-être moins urgents. La détermination des priorités n'est pas une tâche aisée. Parfois les gouvernements eux-mêmes en sont parfaitement avertis, parfois nous avons eu à en discuter avec eux. Enfin de plus en plus souvent il nous ont demandé de recruter pour eux des missions d'études dont l'objet principal était précisément de les aider à établir d'une part des priorités entre les divers investissements qu'ils désiraient et d'autre part l'ordre de grandeur général de l'ensemble

des investissements rendus possibles, soit par leurs ressources propres, soit avec l'appui des ressources étrangères. Nous avons envoyé des missions de cet ordre en Colombie, au Nicaragua, au Guatemala, à Cuba, en Irak, à la Jamaïque, au Surinam, en Guyane britannique. Pour l'étude plus spéciale du secteur agricole et en association avec FAO, nous avons envoyé des missions similaires au Chili et en Uruguay. Ces tâches particulières retiennent de plus en plus notre attention et nous avons la conviction qu'en prêtant dans ce domaine ce qu'on peut appeler notre "assistance technique" nous rendons un service aussi grand qu'en apportant des moyens de financement. En effet, les deux obstacles les plus sérieux au développement économique sont à la fois le manque de capitaux et les limites pratiques à la capacité d'absorption des capitaux neufs. En aidant comme elle le fait à l'établissement de programmes raisonnables, en apportant son aide technique à l'institution de banques de développement nationales, en prêtant son personnel - ou des experts recrutés par elle - comme conseillers en matière d'investissement, la Banque a conscience de faciliter l'élimination d'un des obstacles pratiques les plus graves au progrès économique.

Un dernier commentaire sur ces problèmes de production: j'ai parlé jusqu'à présent comme si nous ne faisons des prêts qu'à des gouvernements. Il est exact, et ceci est une des exigences de nos statuts, que nous ne pouvons prêter qu'avec la garantie des gouvernements, mais rien ne nous empêche - et nous l'avons déjà fait à plusieurs reprises - de prêter directement à une entreprise privée à condition que nous obtenions la garantie de son gouvernement. C'est ainsi que nous avons mis 90 millions de dollars à la disposition de la Brazilian Tracition par un emprunt garanti par les Etats-Unis du Brésil, et c'est ainsi que nous avons mis 26 millions de dollars à la disposition de la Mexican Light and Power sous la garantie du Gouvernement mexicain. Quatre sociétés de navigation hollandaises, sous la garantie de leur Gouvernement, ont reçu les fonds nécessaires à l'achat des navires de haute mer dont elles avaient besoin. Le Gouvernement belge a transféré 16 millions de dollars que nous lui avions avancés à la Société Nationale pour le Crédit à l'Industrie, qui à son tour, les a rétrocédés à trois entreprises privées belges. La Herstelbank de Hollande a reçu de nous 15 millions de dollars qu'elle a rétrocédés à des emprunteurs privés. En Turquie, une banque nouvelle a été fondée par des intérêts privés pour l'expansion ou la création d'entreprises privées: nous lui avons donné notre appui pour ses besoins de change.

La variété de nos opérations ressort assez des exemples que je viens de citer, mais notre constitution

est assez souple pour que nous puissions adapter notre financement aux besoins profonds des pays emprunteurs. Je n'ai parlé jusqu'à présent que du financement d'importations de marchandises liées avec précision à des projets ou des programmes bien définis de reconstruction ou d'investissements. Tel n'est pas le caractère de l'appui que nous avons apporté au Congo belge ou comme vous le savez au Gouvernement italien. Dans ces deux cas, les nations étaient en état de fournir l'équipement industriel nécessaire à leurs programmes, mais l'expansion économique et financière résultant de ces programmes devait normalement entraîner des besoins de change certains mais diffus. Autrement dit, l'augmentation du revenu national devait faire sentir son poids dans la balance des paiements courants, aussi bien par une demande accrue de matières premières que par une demande de produits de consommation. C'est ce coût indirect en devises du programme d'investissement que notre prêt à l'Italie était destiné à couvrir. Les 10 millions de dollars prêtés à la Cassa per il Mezzogiorno doivent permettre de faire face aux conséquences indirectes du plan décennal sur les réserves dollar italiennes pendant une première phase d'exécution. Outre la mise en oeuvre du Plan décennal, la Cassa s'efforce de faciliter l'installation ou l'expansion d'industries dans les régions qu'elle cherche à développer. A cet effet elle peut consentir des prêts en lires aux entreprises privées au moyen d'un fonds spécial constitué avec la contre-partie du prêt de la Banque Internationale.

Nos amis italiens nous ont souvent demandé dans quelle mesure nous pouvions les aider dans leur politique d'émigration. D'autres pays nous ont posé la même question. Nous n'avons pas jusqu'à présent eu l'occasion d'étudier un projet spécifique se rapportant exclusivement et directement à ce problème. Il semble bien que dans le domaine de la colonisation les incertitudes soient nombreuses et les frais élevés. Si un projet attrayant nous était soumis qui justifie un financement en devises étrangères, la Banque serait toute disposée, elle l'a déclaré souvent, à l'étudier de très près. Mais les mouvements de populations sont sensiblement plus vastes que ceux que peut comporter le transfert d'un village ou même d'une usine. Il importe avant tout de créer chez les pays qui ont besoin de main d'oeuvre un désir plus vif d'accueillir des étrangers. C'est directement ou indirectement l'effet du développement économique dans les pays qui ne sont pas surpeuplés. Ainsi la Banque a conscience, en faisant avancer l'économie de l'Amérique du Sud, qu'elle facilite par là même et dans une mesure importante les mouvements de population. Dans le cas de l'Australie, une des raisons principales pour lesquelles la Banque a désiré faciliter le maintien du rythme des investissements était qu'un courant d'immigration

important constituait un but du programme de développement du pays.

Ainsi la forme que peut prendre notre assistance est aussi variée que les objets auxquels elle peut être consacrée. Reste à en déterminer le montant. C'est le problème délicat du crédit. Les risques que nous sommes appelés à prendre sont, par définition, ceux que le marché privé ne peut ou ne veut pas assumer. Ceci ne veut pas dire que nous soyons prêts à les assumer tous et bien souvent on a dit que la Banque Internationale - certains même le lui ont reproché - était fort sévère dans l'appréciation de la capacité de remboursement des nations emprunteuses. C'est qu'ici l'autre base fondamentale de notre action vient à jouer; nous devons nous assurer que les chances de remboursement sont "raisonnables", comme disent nos statuts. Ceci dépend de toute une série d'éléments. Certains d'entre eux seront évidemment d'ordre psychologique ou historique: Comment le pays débiteur a-t-il traité ses créanciers dans le passé? Comment les traite-t-il aujourd'hui? ou encore Quelles chances le pays a-t-il de pouvoir poursuivre la politique financière commerciale et d'investissements qui par définition est à la base de la demande d'emprunt?

Mais il y a également des problèmes de fait: nous avons dit que nous trouvions naturel qu'une nation en cours de développement accepte pour s'équiper un déficit dans sa balance des comptes, mais si ce déficit est dû à sa politique financière ou commerciale, ou même à une politique d'investissements exagérés, un prêt extérieur risque d'être moins un supplément net qu'un palliatif. Nous désirons hâter le développement et non pas faciliter un usage irrationnel des ressources nationales.

Le programme ou les projets d'investissements financés par nous ont pour but de modifier la structure économique du pays en cause et par là le niveau de vie. Il ne suffit donc pas de prolonger dans l'avenir les courbes du passé. Les incertitudes des grands marchés suffiraient à rendre une telle prédiction vaine. Il faut tâcher d'imaginer quelles seront les possibilités de production et d'équilibre extérieur - je ne veux jamais séparer les deux - une fois achevés le programme ou les projets. Nous sommes parfaitement conscients que dans bien des cas l'emprunt qui nous a été demandé n'achève pas définitivement la tâche désirée. En règle générale nous préférons ne pas épuiser d'un seul coup tous les crédits possibles. Nous accomplissons plutôt un premier pas qui sera suivi d'autres au fur et à mesure que les besoins seront démontrés et que le rendement des premiers commencera à se manifester. C'est une des tâches les plus délicates que de convaincre nos débiteurs éventuels qu'ils n'ont pas

intérêt à accumuler rapidement une dette extérieure considérable, mais que cette dernière portera des fruits autrement profitables si elle s'accroît lentement et à un rythme que peuvent supporter et la production intérieure et l'équilibre extérieur. C'est la base même de la continuité de nos rapports avec les états membres.

Avant de conclure, je voudrais insister sur l'aspect de plus en plus international de notre institution. Au début nous avons surtout prêté des dollars. Nous étions plus riches en dollars qu'en monnaies moins fortes. Les Etats-Unis faisaient de l'exportation des capitaux un élément de leur politique et les pays emprunteurs étaient pour la plupart désireux non seulement de recevoir des capitaux frais mais de les recevoir en dollars. Mais il est rapidement apparu que ceci risquait de limiter trop étroitement nos opérations. Il ne fait guère de doutes que les Etats-Unis resteront pendant longtemps le plus grand réservoir de capitaux exportables et par conséquent les plus grands exportateurs nets, mais ils sont loin d'être les seuls exportateurs de capitaux et bien des mouvements ont lieu à travers le monde en d'autres monnaies que le dollar. D'autre part l'accroissement de la production dans les pays industriels a éliminé la nécessité de demander à l'Amérique du Nord l'écrasante majorité des biens d'équipement nécessaires au monde. Enfin en l'absence de libre convertibilité des monnaies la capacité d'emprunt de nombreux pays est moins grande en dollars qu'en autres monnaies moins fortes. C'est en effet leur capacité de gagner le service des emprunts reçus dans la devise empruntée et non pas seulement leur capacité d'établir l'équilibre global de leur balance des comptes que nous devons considérer.

Il était donc indispensable de nous procurer des ressources en monnaies autres que le dollar. Au début, seuls les Etats-Unis s'étaient sentis en position assez forte pour mettre à notre disposition la totalité de leur souscription espèces. Mais avec l'amélioration de leur situation d'autres états membres parmi les pays industriels ont consenti de plus en plus largement à l'utilisation des 18% souscrits par eux en monnaie nationale. Le Canada a libéré la totalité de sa part. La France environ 40%. Tout récemment la Grande Bretagne a annoncé la libération de la plus grande partie des sterlings souscrits par elle pour l'usage du Commonwealth. Au total l'équivalent de 97 millions de dollars sont venus s'ajouter à nos ressources et sont déjà affectés et des sommes importantes restent à employer.

Une autre source de monnaies autres que le dollar est constituée par nos emprunts au Canada, en Angleterre et en Suisse, au total près de 60 millions de dollars.

Grâce à cela les emprunteurs de la Banque dont les perspectives dollars sont moins bonnes que leurs perspectives globales sont en mesure d'importer plus de capitaux. La Yougoslavie ne doit à la Banque que des monnaies européennes, l'Islande aussi. En outre, et ceci n'est pas négligeable, les industriels européens peuvent conquérir des marchés qui souvent ne leur seraient pas ouverts si le financement n'avait pas été accordé par la Banque.

Il est peut-être utile de souligner ici que la Banque s'est toujours préoccupée d'encourager la concurrence internationale. Elle encourage les emprunteurs à faire des appels d'offres sur une base internationale, et à plusieurs reprises elle a été amenée à utiliser des dollars pour financer des marchandises européennes à livrer à ses emprunteurs. Ainsi pendant l'année au 30 juin 1952, plus de 25% des versements effectifs faits par nous à nos emprunteurs ont été dépensés en biens d'équipement et en services en provenance d'Europe. Pour une partie le financement a été assuré par les souscriptions en monnaies européennes, mais pour une partie importante aussi la Banque s'est procuré ces devises au moyen de dollars. Ce fut là une source de revenus dollars pour les pays exportateurs d'Europe.

Autre aspect international de nos opérations, nos emprunts émis en dollars aux Etats-Unis sont maintenant cotés à Paris, à Amsterdam et à Bruxelles. Par là même des fonds dollars provenant d'une épargne non américaine peuvent être mobilisés pour des opérations de la Banque. Elargissement du marché de nos titres mais aussi contribution directe à notre développement et à celui de nos états membres. Nous souhaitons vivement voir nos titres traités sur tous les marchés financiers importants.

Voilà Messieurs, notre mécanisme, voilà les problèmes fondamentaux auxquels nous heurtons. Je n'ai pas besoin de vous dire qu'ils changent de pays à pays et d'année en année, qu'aucun cas ne ressemble au précédent. Ce sont les traits généraux et communs que j'ai tenté de tracer pour vous. Mais une dernière question se pose, elle constituera ma conclusion. Quelles sont les perspectives d'avenir de cette institution? Elles sont évidemment liées à l'évolution économique du monde. La reconstruction, en Europe, et la reconversion de l'industrie aux Etats-Unis et au Canada ont été d'immenses stimulants de l'activité économique, mais leur effet tend à s'atténuer. Le réarmement mondial, intervenu après l'ouverture des hostilités en Corée, a non seulement créé des charges très lourdes mais également servi de stimulant. Dès lors que la masse des investissements et celle des dépenses militaires tendent à se stabiliser, l'effet de stimulation tend de son côté

à s'atténuer. En outre, des pays de plus en plus nombreux aspirent à la stabilité monétaire et cherchent à éliminer le stimulant déformant de l'inflation. Il faudrait donc s'attendre non pas à un ralentissement économique mais sans doute à un certain ralentissement du taux de croissance de l'activité économique dans le monde. Il faudrait s'attendre à une renaissance de la concurrence sur le plan national comme sur le plan international. Celle-ci devrait normalement avoir un effet sur les prix, elle devrait aussi entraîner des changements de structure. Certes les éléments qui ont été à la base du progrès économique au cours des cent dernières années continueront à jouer. Accroissement de la population, augmentation de la productivité, redistribution des revenus sont autant de facteurs dont nous savons qu'ils sont puissants mais leur effet est lent.

Cependant la première partie du XXe siècle a révélé un fait nouveau, ou plus exactement un mouvement dont la force s'est accrue si rapidement qu'il est apparu comme un facteur considérable, c'est le désir des pays sous-développés de participer plus pleinement au progrès économique. Dans le monde entier, le développement économique est devenu un appel urgent. Je ne vous parlerai pas des obstacles qui s'y opposent; ils sont nombreux et souvent bien connus, mais il est certain que les pays avancés comme les pays sous-développés sont d'accord pour estimer qu'il sera de l'intérêt du monde entier d'atténuer au moins les différences énormes de revenus entre les pays avancés et les pays sous-développés, comme en Italie on cherche à atténuer les différences de revenus entre le Nord et le Sud.

Si ma prédiction est juste et si nous entrons de nouveau dans une ère de concurrence aigüe, il est vraisemblable que les pays sous-développés offrent un marché que les pays avancés ne peuvent négliger. Le grand obstacle sera d'ordre financier et il me paraît évident que pays exportateurs aussi bien que pays importateurs qui composent notre institution, demanderont aux sources du financement international de faciliter leur tâche ou leurs ambitions. Au moment où l'aide financière du Gouvernement américain ne paraît pas susceptible d'accroissement, bien au contraire, il serait normal que les yeux se tournent vers la Banque Internationale et que l'on recherche plus activement encore que par le passé dans quelle mesure elle peut contribuer à faciliter les changements de structure dans les pays neufs comme dans les pays anciens, à élargir le commerce international, à consolider l'équilibre du monde et à développer son bien-être.

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ADDRESS TO THE COUNCIL OF FOREIGN RELATIONS

At Los Angeles, Portland and Seattle

Given by

Leonard B. Rist

May 1953

*Los Angeles - May 20
Portland - May 28
Seattle - June 2*



A few months ago, I accepted serenely the task of leading off tonight with the subject of the interplay of political and economic developments. Coming right down to it, I was not aware then of what I was letting myself in for. However, I did not want to back down. Even if it did not make for a good speech, it would, at least, make for a good discussion.

The main difficulty is that the basic assumption is so widely recognized that it hardly needs arguing. Everyone of us is aware that there is an interplay of politics and economics. Historians fight today about the role of economic factors in starting the Civil War; they have not yet agreed on the extent to which economic, or human, or cultural factors started in 1776 what one of my British friends refers to as "the unfortunate separation"...

There will, therefore, be no conclusion to my address tonight, except that today as well as in the past the businessman has to take account of the political framework he lives in, and the politician must recognize the importance of economic considerations. The purpose of my speech tonight is only to expose in some detail how presently this interplay of politics and economics comes to light.

Let me make it clear to begin with that I am not thinking of internal political developments and their effects on internal economics. As a foreign guest of your country, I would run the risk of being dragged into discussions which are really not within my province. I am only talking about international developments. The reason for my audacity in tackling this complex subject is that it is one which, willy-nilly, pervades our thinking at the International Bank. We cannot think of the credit of our member countries and their prospects without taking into account the present shape of the political world.

One of the questions we are asked most often at the International Bank is the extent to which political factors influence our loan decisions. It is easy enough to answer in general terms. Our Articles of Agreement make it plain that we must not take account of political factors when we grant a loan: we can underline the fact that we have followed this rule.

We have lent to Colombia, in spite of the fact that its government could not be described as fully democratic. We have lent to Yugoslavia, which has a Communist regime. We have lent to Turkey twice, once when it was under a system of controlled elections and a second time after the freedom of elections had overthrown the previous government. To sum up, we have

on the whole disregarded internal political factors where we felt that economic conditions and prospects warranted our taking the financial risks involved in a loan.

More than that, we have accepted external political risks. We have not only lent to the relatively sheltered areas of Latin America, South Africa and Australia; we have not only accepted the average war risk involved in lending to Western Europe (France, Belgium, Holland and Italy) or to South Asia (India and Pakistan); but we have also made loans in countries bordering the Iron Curtain or trouble areas (Turkey, Yugoslavia, Finland, and Thailand). Therefore, we can say with a clear conscience that our lending has not been influenced by political factors.

I would not be completely truthful if I did not point out that in apparent contradiction to this general attitude, the Bank has indicated to Poland that it could not pursue negotiations with her and has never encouraged Czechoslovakia to enter into negotiations in spite of the desire clearly expressed by the Czechs. As you probably know, Poland actually withdrew from membership and Czechoslovakia, while still a member, is only present at our annual meeting and takes absolutely no part in our activities. Poland and Czechoslovakia are instances where we can say that it is not the political developments but the bearing of political developments on economic conditions which have been a deterrent to our action. It was felt by some of the member countries represented on our Board that Poland and Czechoslovakia, in turning communist within the framework of the Cominform, had lost the freedom of action which would allow them to dispose of their foreign exchange earnings in accordance with the best interests of their own country and that therefore the servicing of a loan from the Bank might be jeopardized by pressure from outside.

This particular case of the Iron Curtain countries is a dramatic example of the influence which political considerations may have on economic developments. But there are many more instances of this interplay, and this is the subject I would like to discuss here tonight.

We would rightly claim that political considerations have not dictated our loan policy, but we could hardly sustain the view that political events have no effect on the economic considerations we must take into account in our lending policy. Quite aside from the two countries I have mentioned before, which are in our customary jargon "behind the Iron Curtain", there are many instances where international politics affect the whole economic structure on this side of the Iron Curtain. I would like to submit to you tonight two such instances:

1. the slowing down of the so-called East/West trade,
2. the effect of the aggressiveness of the Soviet bloc on the relationship between the United States and two countries which have wide international responsibilities, that is, Britain and France.

I will also give you some instances where attempts are being made to achieve what may well be described as political aims through the means of economic action.

I. East/West Trade

This is a case where the deterioration of political relations between two groups of countries has brought about a slowing down of international trade, with harmful effects undoubtedly on both sides of the Iron Curtain. I am sure that you will realize that in trying to describe this particular aspect of the world picture today, I am not implying that politics is a valid motive, but it is a fact that politics is a motive and what I want to describe is the effect that this motive has had.

While reliable data are difficult to find, some rough estimates have been made. They show that the total foreign trade of Eastern Europe including the USSR has increased by about one-third from 1938 to 1951 - this is at constant prices - that the trade among the Eastern European countries which used to be a small fraction of their commercial activities before the war, has increased tenfold; that their exports to China have probably increased correspondingly but that their exports to Western Europe, which represented two-thirds of their exports before the war, have fallen to about one-seventh of their present exports, or one-fourth of the prewar volume. Imports have followed roughly the same pattern as exports. In other words, trade between East and West has not ceased. But generally speaking, it involves much smaller quantities and amounts than prewar. The evolution that brought this about is a combination of economic and political factors which are difficult to untangle.

Among the economic factors we can define two: in the first place the degree of destruction existing in the East at the close of the war was considerable and the output was not sufficient to permit any substantial volume of trade. In the second place, as Soviet influence became more powerful, all the countries of the East were pervaded by the economic policies of the USSR: heavy investment, industrialization, certainly also armament production and more or less agrarian reforms. This meant that as production picked up, more and more of it was absorbed by either internal needs of the countries themselves or the needs of their Eastern neighbors. At the very time when several countries of Western Europe were hoping for a revival of their exchanges with the East and when conferences after conferences dealt with that subject without tangible results, it was striking to note that the attempts to sell Eastern commodities to the traditional buyers in the West were not stepped up and that delays in deliveries from the East were not uncommon.

As to the political factors, there were two outstanding ones: in the first place the very extension of the power of Moscow conveyed the economic policy concepts which I have described; it also conveyed the idea that autarchy for the Eastern group was a good policy, irrespective of the cost; that exports were necessary only to the extent that necessary import goods be received, not to the extent that they allow these imports to be made at a more advantageous cost. The purpose of this autarchian attitude is obviously a political one: just as Russia in the inter-war period, just as Hitler's Germany, the Eastern bloc today wants to reduce its dependence on foreign supplies and foreign markets as much as possible. Dependence--and I will come back to this idea several times tonight--dependence is an expression of solidarity, and solidarity is only acceptable among countries or

groups which have common interests.

The second big political factor was, of course, the increasing tension with the Western world. As the world situation grew more menacing, nations after nations set up export controls for security purposes. These controls were accelerated after the Korean war. There is a complete embargo on arms, ammunitions, atomic energy materials, and a virtual embargo on industrial and transportation equipment of primary strategic significance. In addition, there is a system of selective controls designed to limit exports of items which might contribute significantly to the Soviet military potential. Since trade is done on a purely barter basis, exports did not bring to the East the things it wanted and there was no incentive for the Iron Curtain countries to develop outside markets.

We have no basis to judge the extent to which the East has been handicapped by this situation but we know that the decline in trade with the East as compared with prewar has undoubtedly been a cause of economic difficulties to Western Europe. The Eastern countries exported in 1938 the equivalent (in 1950 prices) of roughly \$2 1/2 billion. In 1951, the figure was a little over \$600 million. The difference had to be received from elsewhere and to some degree the continuous deficit of Europe towards the North American continent can be attributed to the need for substitute sources of supply.

The case of grain is a clear one. Grain exports remain at less than half of the prewar level. Soviet exports, always an erratic item, have risen above prewar, but other Eastern countries which provided the West with an average of some 2 1/2 million tons in 1934-38 were only supplying 300,000 tons in 1951-52. Timber exports followed the same trend. It is known that production has increased but in 1949/50 exports of sawn softwood to Western Europe were only one-fifth of the prewar volume and the figures have been even smaller since. As far as coal is concerned, Eastern exports had revived and reached a maximum in 1949. In fact Poland, which acquired the Silesian mines after the war, managed to export 15% or 20% more coal to the West in 1949 than in 1938. But since then coal exports declined both in 1950 and 1951.

On various occasions, public declarations were made in Moscow or elsewhere to the effect that an expansion of trade with the West would be desirable--or even easily feasible. Reports from the Moscow economic Conference of 1952 indicated that the Eastern delegate spoke in terms of doubling Eastern exports. During the last weeks, newspaper accounts of the conference held in Geneva on East-West trade have sounded a similar note. It is impossible to know how seriously these declarations of intent must be taken. In view, however, of the absorption of raw materials and the increase in consumption brought about by industrialization and urbanization, it would be unrealistic to expect anything like a return to the prewar picture.

I have already mentioned the general effect on Western Europe. Let me mention more specifically one or two countries. First, Yugoslavia. Before the war, its pattern of production and trade was rather oriented towards the West. As long, however, as the country was a member of the Cominform, it carried on most of its exchanges with the East. The abrupt break with Moscow forced Yugoslavia to turn about once more and it has been able to recover its former lines of supply and its outlets without too much difficulty. In fact, it is relying even more on the West than it ever did. Austria, on the other hand, traditionally oriented towards the lower Danube basin, found it very difficult to adjust to a new pattern. Its present position is one of a

creditor on current account with Western Europe, a strong presumption that a reorientation is slowly taking place.

I have not spoken about Japan and China. The case is so well known that it is hardly necessary to comment on it. If Japan is to be deprived for a long time of its relations with the mainland of Asia, it must perforce adapt the whole economic set-up to the search for customers and supplies in the free world. This does not mean only a difficult period ahead for Japan, it means also increased competition among the free national.

II. Atlantic Community

I have just discussed a case where political considerations have a negative influence on the economic welfare of the free world. Let me now pass on to another aspect of the political division of the world in two blocs; it has also had positive effects: the American foreign aid program has been motivated to a large extent by the desire to establish and maintain a standard of living in Western Europe which would be compatible with social and political equilibrium, and by the desire to assist these countries in carrying the financial burdens which their political position as members of the free world imposes upon them.

In seven and a half years, from the end of European hostilities in mid-1945 until December 1952, the U.S. Government and its agencies have made \$8 billion of loans to Western Europe (O.E.E.C. countries), and \$22 billion of grants. The total of aid was therefore \$30 billion. So-called economic aid which has strongly declined over the last two years represents \$26 billion, and military aid which has been climbing since Korea, almost \$4 billion. Out of the total of \$26 billion of grants and loans representing economic aid to Western Europe, \$7.3 billion or 28% went to the United Kingdom and \$5.0 billion or 19% to France. These two countries together have, therefore, received the lion's share of your aggregate contribution.

The budget for the fiscal year 1953-54 is not approved as yet but the intentions of the Administration have been recently announced. They show an important intended contribution to Nato and Indochina and there is little doubt that the United Kingdom and France will again be the larger beneficiaries.

In spite of this, the United Kingdom and France do not seem to have re-established their economies on as firm a basis as, say, Belgium or the Netherlands. Their balance of payment position has not improved to the same degree as say, Germany's or Italy's. Convertibility of the pound or stabilization of the French franc would be signs of complete recovery. It might possibly be achieved in the foreseeable future, especially the former, but we know that it will not become an accomplished fact immediately. In spite of that, the U.S. administration does not seem to doubt that the U.K. and France ought to receive further military and financial and financial assistance.

The reasons alleged for the sizeable differences in degrees of rehabilitation are manifold. It is said, and quite rightly, that Belgium suffered less destruction than most European countries. It can be said that Germany and Italy were so close to chaos at one time that any measure of financial retrenchment was acceptable to a despairing nation. It can be said that in the case of the Netherlands that thanks to a long tradition of social peace and prosperity they were able to achieve a high degree of political unanimity and that this explains the way in which the country accepted the stern restrictions on consumption imposed by the losses of the war—including the loss of

Indonesia. All this is true enough. But then if we speak of retrenchment, economy, restrictive financial policies as causes where a better balance is realized, we must also recognize that in the cases where balance does not appear close at hand, disequilibrium is due to over-extension. By this I mean that some European countries have assumed obligations and burdens which may be considered excessive in the light of their own resources.

The point I am trying to press is this. It is true that the U.K. and France are over-extended, but the U. S. policy-makers have realized that this very over-extension is in the interest of the whole Atlantic Community or, even better, in the interest of the Western World.

You are familiar, I am sure, with the famous principle of the three circles which our British friends like to propose as a definition of their position in the world. Our interests, they say, are threefold. We are a European power, we are a Commonwealth, and we are an Atlantic power. These three fields of activity and the ties they involve are like three eccentric circles. They do not cover each other exactly. There are important zones where our interests as a Commonwealth nation are in contradiction with our desire to cooperate fully in Europe or to concentrate on our sole duties as members of the Atlantic Community.

In economic terms, this is even more striking. Had the United Kingdom been able to look after it alone when the war came to an end her balance would have been reestablished a long time ago. And indeed, while it still has a dollar deficit, it has long since recovered overall balance in international payments. But the aim of the United Kingdom is not to be balanced; it is to achieve such a surplus that it can continue to export capital to the other members of the Commonwealth.

The best known aspect of this particular problem is of course the sterling balances. They accumulated during the war as a result of what, in the final analysis, amounted to credits given to England by the members of the Commonwealth. When they now ask the U.K. for release of these balances either in sterling or in dollars, they ask for a repayment of capital, and for the U.K. these releases, in effect, are an export of capital, i.e. a loss of resources. London has been able to accumulate more balances in the colonies' account while it was releasing balances to Egypt, India or Australia, New Zealand or South Africa. But on the whole, it has since the war repaid more than it has received.

In addition to repayment of past credits, England has exported long-term private capital mainly to Australia and South Africa. It has also made grants for the relief and rehabilitation of European countries, and has exported substantial amounts of grant money and long-term loans to its colonies, thus reducing the credits which it was receiving from them.

All in all, it may be said that very little of the resources which it has received as postwar assistance from the United States and Canada have remained in the economy of the United Kingdom. I do not have complete figures but we may say that from mid-1945 to 1952 it has received in loans and grants from U. S. and Canada \$8.7 billion. In turn it has re-exported about \$3 billion of private capital and over \$4.5 billion of government loans and grants.

In other words, it has had both for itself and for the benefit of the sterling area of which it is the banker, the full benefit of the dollar exchange contributed by the United States and Canada; but in terms of aggregate resources it has kept only a fraction of that amount and has re-exported roughly seven-eighths of it to its associated states. The bulk of the rehabilitation of Britain proper has been made on the basis of Britain's own resources.

This is not the end of the story. The sterling releases and private capital exports can be defined as contributions to investment, i.e. to the development of underdeveloped areas of the world. But especially since the East-West struggle has culminated in the Korean conflict, military expenditures have been a constant drain. Overseas troops are scattered in many areas around the globe; they are still fighting in parts of Malaya and in other parts of the Commonwealth. Finally, rearmament comes on top of it all and England is now expected to spend about 12% of its gross national product on its defenses. This is almost double the 1938 ratio.

The United Kingdom is undoubtedly over-extending its expenditures. The same is true of France. The French do not speak of three circles. They speak of three vocations, but they mean the same things: Europe, the French Union and the Atlantic. They have a more complicated internal picture and undoubtedly more conflict between Parliament and Cabinet. They have had to rebuild and reorganize more. In 1945 their production was less than one-half of prewar while in Britain it was slightly more than prewar. But this is over now, except for the frightful lag in housing construction. Meanwhile, their budget deficit is bigger and has been more persistent than in Britain and they have not yet re-established overall balance as Britain did. But when one goes through the ledger of their expenditures one cannot but be struck by the similarity between the two neighbors.

If the French could be told that the internal problems are the only ones that matter they would have little excuse for their present precarious state of balance. But their responsibilities are not limited to Europe. They also have exported capital to their dependent territories. The grants and loans received between mid-1945 and 1952 from U. S. and Canada amounted to \$5 billion. But their own grant and loan contributions to their overseas territories have exceeded \$1 billion. Together with the continuous surplus of trade they are financing with their territories, the total resources transferred to the dependent areas must have been at least \$2 billion. Add to that the cost of the Indochinese war currently estimated at over \$1 billion a year and it is clear that while French rehabilitation has been made possible by North American assistance, a part of the resources imported by France as aid - perhaps not as big a part as in the case of England but a substantial one in any case - has been re-exported for development of underdeveloped areas, troops stationed abroad and defense in Asia. The general rearmament effort here again comes on top of it all. The defense expenditures expected from France this year are at about the same level relative to national product as for Britain, around 12%. (Figure for U.S. - 14%)

What do all these figures point to? U.K. and France have more commitments outside their metropolitan territory than any other European powers. Their contribution to defense is expected to be around 12% of gross national product while most other European countries are expected to contribute around 6% or less. This means that their political role is expected to be larger, both in absolute terms and in relative terms. Their over-extension in the economic and financial fields is due to their global responsibilities. Development and defense are two mainstays of the policy of the West, actually the two main objectives of the Atlantic Community. What they do in these fields is acknowledged to be in the common interest of the Western world by the other countries including the U.S., I should say beginning with the U.S.

And this, I think, explains why the continuous support of your country, military and financial, is being given to them in spite of the fact that they cannot claim to have fully restored their external position. The alternative would be to tell them: retrench, limit yourself to your own European territory, forget about development, defense and Asia. But then someone else would have to take their place, because the role they perform is in the interests of the whole Western world and deserves therefore the assistance of its leader, the U.S.A.

III. Influence of Economic Factors on Politics

The two examples I have given you tend to indicate that the political constellation of the world of today is in certain respect a factor of weakness, in other respects, a factor of great strength. They also show that political tensions or political friendships lead themselves into economic non-dependence, or economic interdependence. The question then arises, can the process be reversed? Can economic actions have an influence on political differences? I am not referring here to the well-known attributes of traditional imperialism or to the spirit of conquest which have often been ascribed to the desire to wield more economic power. I am referring to more peaceful aims and to the attempts recently made to enlist political cooperation among nations by bringing about economic cooperation.

We had recently a few instances of such endeavors. I will not deal with them in detail but would like to underline their importance.

As you may remember, an attempt of this kind was made by the International Bank when Iran and the U.K. asked us to try and find a temporary solution to their differences. The flow of oil had stopped, the refinery was idle and the two parties could not come to terms. The Bank did not try to bring about an agreement, neither did it try to arbitrate between the two contenders: it only tried to find a practical means by which the exploitation of oil could be resumed, without prejudging any settlement of the outstanding legal and political issues. As you know, our attempts were not successful and the negotiations between the two powers do not seem to be proceeding satisfactorily.

Our effort failed for two reasons: (1) The Iranian Government--actually, Dr. Mossadeq--was unwilling to let British technicians return to the oil fields, in spite of the fact that they were the only technicians available in sufficient number to run the fields and refinery. (2) The Iranian Government insisted that the Bank agree to act solely as the agent of Iran, whereas the whole basis of the Bank's intervention was that it would act without prejudice to the interests of either Iran or the United Kingdom. When we finally agreed about a year ago that there would be no point in trying to negotiate any further, the Iranians told us: "The whole trouble was that for us, this is a political question, and you looked at it as an economic question".

There is another case where we made an attempt to deal with technical economic problems independently from the political issues at stake, in the hope that economic benefits may accrue to both parties and that suspicions and bitterness may be allayed. I am referring to the Indus Valley controversy between India and Pakistan.

The partition of the two countries took place in 1947. Quite aside from the problem of the refugees and the horrible violence which took place at that time in the Indian subcontinent, quite aside from the Kashmir dispute, some very irksome problems came to the fore. The settlement of refugee property claims is perhaps the biggest of the financial problems outstanding between them, trade difficulties of enormous magnitude were inevitable to a certain degree but were considerably amplified when in September 1949 India devalued its rupee while Pakistan retained its previous parity. There is competition in jute growing and jute processing; there is competition in cotton growing and cotton processing; there is competition for outside sources of supplies and for foreign outlets. In short, before partition two-thirds of Pakistan trade was with India; today the proportion is only one-third.

Where the tragedy is really at its worst is in the Indus Valley. The Kashmir dispute is a territorial one in the traditional political sense, but water is involved in the Indus controversy: water and wheat fields, the livelihood of millions. Long before partition the British who have done a remarkable job of development in old India, had encouraged or directly participated in the irrigation of vast areas of what is now largely West Pakistan. The canals which spread the waters of the Indus tributaries did more than allow for improved watering; they actually opened up desert lands and brought them under cultivation. Of the some 75 million acres of cultivable land in the Indus basin, 23 million were irrigated at the time of partition, of which roughly 18 are now in Pakistan and 5 in India. Before partition there was no problem of division of the waters. On the basis of over fifty years of improved irrigation, plans were drawn to increase the utilization of the waters all along the course of the river and its tributaries-- some of the projects were to be located in what became India, some in what was to become Pakistan. Moreover, the headwaters and some of the distribution locks were located in India. In other words, if India goes ahead with development projects on the course of the headwaters, she can be suspected of disregarding Pakistan's needs, and in the immediate present she is, at least geographically speaking, in a position to cut off some of the water supply, i.e., the very life of Pakistan. It is easy to imagine what anxieties such a situation may foster in the minds of neighbors who have several points of dispute quite unrelated to the problem of water. Even between states of this country, water rights are an ever-recurring and difficult problem. When the states are not federated and when they have recently seceded from each other, and have numerous other outstanding problems between them, territorial, commercial or financial, issues such as water rights are infinitely more complex. This is why Mr. David Lilienthal suggested in August of 1951 that this problem should be looked at from a technical standpoint. And as you know, the International Bank has offered to facilitate one or several meetings of the technicians of both sides to allow them to examine the problem in common as if it were purely an engineering study. We strongly hope that if this turns out to be a success, many of the other problems dividing India and Pakistan

will become easier to solve.

As you may know, the Bank has persuaded the two sides to consider at least the technical aspects of the water question. Indian and Pakistan engineers, together with Bank engineers, have now had two extended series of meetings. Technicians of the two sides have nearly completed the gathering of the hydrographic and topographic data required. We will all sit down together again in Washington next September to begin drafting specific recommendations and to draw up estimates of the cost of dams and other works that may be required to increase the usefulness of the Indus waters.

As was not true in Iran, we have not yet, at any rate, encountered any rigid political attitudes on either side; in fact, government spokesmen on both sides, including Prime Minister Nehru of India himself, have given their public blessing to this joint undertaking and the Bank's role in it. We ourselves have and inducement to offer, since both Pakistan and India may reasonably hope that the Bank will be willing to consider the foreign exchange cost of whatever projects and programs are agreed on. Finally, the question of water is so literally a matter of life and death for so many people on both sides of the border that in this case we may still hope that economic considerations will overcome political tensions.

One last example: European cooperation in the economic field. Through its economic assistance the U. S. has induced a degree of cooperation among Western European countries which was unthinkable before the war. The OEEC which was originally created for the purpose of dividing American aid, has turned out to be a powerful instrument for reducing trade barriers among the European countries. One of its by-products, the European Payments Union, has extended financial support and financial advice to the same group of countries. Finally, the Schuman plan, a purely economic organization, has been adopted by sovereign powers as a means of linking them together. This last example is perhaps the clearest of all; the participating countries have relinquished their sovereignty rights as far as tariffs, freight rates, price fixing are concerned for all their coal and steel production. They hope that by withdrawing from national controls these basic industries, strong causes of friction amongst nations will be eliminated, and that by creating more economic interdependence in Western Europe political conflicts will become less likely.

In the cases I have just mentioned, the conscious aim was to use economic weapons to improve political conditions, but there are infinitely more cases where the same process is followed unconsciously. Combination of interests, business relations, expansion of international trade throughout the world bring fresh encouragement to the advanced and less advanced countries alike, and the hope that there is after all a peaceful path toward general welfare.

Whether these developments are financed by institutions such as the International Bank or by private interests in their pursuit of higher profits and enlarged business the results ought to be the same. If through these channels links can be created which make countries more dependent on each other, more complementary to each other, then finance and business will have performed not only economic functions, but also moral and political functions.

Leonard B. RIST

ADDRESS to the TOWN HALL
of LOS ANGELES

May 19, 1953

Trade, Dollar Gap and Investments

Mr. Chairman, Gentlemen,

When some twenty-five years ago - that dates me back to before the great depression - I took my first trip to the United States to learn something about investment banking, some of my New York friends referred to me as "you people from Europe". To them, the Old World was static, managing a nice piece of property but not really going ahead. And truly there was more drive, more confidence in human potentiality on the West of the Atlantic than on the East. After World War II, three years ago, one of my young relatives who had spent some time in a California University came to visit me in Washington. He persisted in referring to me as "you people from the East". To him there was between the two sides of this big continent of yours the same difference as that which existed between the two sides of the Atlantic. And indeed, Gentlemen, whenever I visit your part of the

United States I cannot help being impressed by the drive and hopefulness which characterizes the West Coast.

This is why, when you honored me with an invitation to speak before you, I thought of a subject which would not betray too much the supposedly hardened arteries of a European who lives on the East Coast of the United States. That the state of the world is not ideal is only too obvious, but I intend to show that there are elements of balance and of progress and perhaps this audience is more able than any other to share with me the dynamic view which justifies my basic optimism.

I. - Improvement in the World Picture

The postwar period is over. In a human sense, we remember still the moral and physical sufferings. There is no forgetting the lost lives, and many ruins have not been rebuilt. But in an economic and statistical sense, we find that the world population has risen higher than prewar. Industrial production is on the average 87% above 1938 and the volume of international trade has increased by 40% during the same period. In other words, the effects of the war on production and on income have been more than erased by eight years of normal growth, hard work and international cooperation.

True, this was made possible by the fact that

great centres of production were unaffected by the war. The United States, Canada, Australia, and even the United Kingdom were producing more in 1945 than in 1938. True, North and South America, Africa and some parts of Asia increased their output of raw materials during the war period. The capacity was therefore available when the need for reconstruction substituted the need for a war effort. In addition, unprecedented generosity on the part of the American nation facilitated the transfer of these resources to those who needed them. Finally, there was another powerful element, the acceptance by the devastated countries of lower standards of consumption, their willingness to forego an immediate return to prewar food, housing and clothing conditions, for the purpose of investing more in the rebuilding of their country.

But now we are reaching a new stage. Broadly speaking, reconversion and reconstruction are accomplished facts. The spurt in rearmament provoked by the Korean war seems to have run its course. Unfortunately, defense expenditures remain higher than we had hoped at the end of World War II, but they are not likely to expand much more. As reconstruction has progressed all over Europe, the desire for monetary stability, for individual savings - for convertibility - is replacing the desire for a rapid build-up, and the need for investment at the expense of consumption becomes less

acute. All this means that the big stimulants to economic activity which have played such a tremendous role over the last seven or eight years are losing some of their strength. As production curves flatten out all over the world, competition for supplies and outlets becomes more acute in international trade. Germany and Japan are quickly joining in the race and in the absence of more trade with the Soviet block, the area in which this competition is at play is narrowed down to the free world. If an all-out war is not likely for tomorrow, then the world must settle for this agitated peace of ours in a pattern which has some chances of lasting.

The return to some kind of stability makes it natural that every country should take a good look at its own position and should reflect on the changes of structure which are involved.

Does this all mean that economic expansion is to stop? In other words, do balance and stability mean stagnation under conditions of bitter competition? Some people express apprehension as to the trend of business in this country. Would they be justified in saying that - aside from some readjustments which are always possible - the outlook for world trade is dim simply because expansion will slow down?

The answer is emphatically NO. A slowing down of the process of growth does not mean a decline. The

elimination of excessive demand fostered by inflation does not mean disappearance of international trade. More competition does not mean less exchange of goods. Even if reconstruction and rearmament have lost their power of incentive, there remains the immense market called the underdeveloped countries. There the needs will grow as economic strength grows. The drive for development has become a movement which in the long-run should be as strong as the need for reconstruction but much more durable in nature. The demand for equipment and the higher quality products of the more advanced countries will only be limited by the capacity of the underdeveloped countries to pay for them. This durable and wide market, added to the continuous demand for more exchange between more advanced nations, provides a reliable and expanding basis on which international trade should thrive during the next decades.

II. - The Road to Equilibrium

Two remarks seem in order at this point. First, the balance is not yet fully restored otherwise convertibility of the main currencies would be an accomplished fact. Second, the long-term prospects are favorable.

As to the first point, there is still a surplus in the current balance of payments of the United States.

There is still a dollar gap. In spite of the fact that in 1951 Western Europe succeeded in importing in volume 11% less than in 1938, and at the same time succeeded in exporting 40% more to the world and 65% more to the dollar area alone, a series of elements such as price movements, additional military expenditures abroad and debt charges prevent a satisfactory balance. But this is not the whole story. More important is the pattern of trade. The role of the dollar area as a supplier to Europe has increased, the role of the Commonwealth and of the dependent territories is unchanged but other areas have decreased their share in European imports. Not only Eastern Europe, which is largely re-oriented by political considerations, but the rest of the world including non-dollar Latin America has reduced its supplies to Western Europe. This is one of the unfortunate effects of what I would call unbalanced development. I mean the tendency of several underdeveloped countries to turn away from export markets and to turn to their internal market. To be fair, one must add that this is also due to the fact that in view of the higher prices commanded by their staple commodities these countries were able to export less in order to receive more finished products. In short, some structural changes in the world trade relationships have taken place which contribute considerably to the present lack of balance, and thus account for the trade restrictions

and discriminations which Europe has had to impose on its importers.

On the other hand, the prospects are far from unfavorable. This large American surplus was to a considerable extent financed by your contributions.

The United States willingly shared their wealth with others in the reconstruction period and provided the world with more goods and services than they received in exchange. Your country financed the difference with loans and also with substantial grants. But the post-war reconstruction has already brought down the surplus in your balance of payments from \$7 billion in 1946 to some \$1.5 billion in 1952. The trend is definitely downwards. The extraordinary assistance which you granted so generously to satisfy a food-hungry, raw materials-hungry, machine-hungry Europe is definitely waning.

Moreover, looking into the long-term future, we can foresee further improvements. As inflationary forces diminish in Europe and as savings rise, the demand for consumer goods imports should be further reduced. In addition, the relative, if not the absolute, share of American exports in international trade is bound to become, broadly speaking, less important as the United States ceases to be the dominating supplier of certain vital commodities. Cotton is grown in more places, wheat is returning to prewar production in

Argentina and Australia, oil discoveries are exploited all around the globe. Africa is increasing its production of copper. Fruit growers and machine manufacturers alike have increased their capacity outside the North American continent. It is not likely that the world may stop needing or wanting American supplies. But what is likely to happen is that as additional requirements come to light more and more of them will be satisfied from non-American sources.

At the same time, your own need for foreign imports can only increase. The Paley Committee forecast that within ten years your imports of essential raw materials will have increased by one-fourth. There is no reason why this should be limited to raw materials. The whole range of your imports should be similarly affected by rising income in the United States. (Unless of course, this country should resort to increased protection, which God forbid.)

In the long run, therefore, the trend should be towards more balance between the goods and services you offer to the world and those you acquire from the outside world. Thanks to continuous and world-wide structural adjustment, the outlook is a return to balance in international trade and the abandonment of trade restrictions and discriminations. But not overnight - over years.

The question then arises how can the return to balance be hastened. Hastening the return to real balance of international payments is important not only for the non-dollar world, which at present still receives aid to make both ends meet, but equally to the dollar world itself. It is the dollar world which provides this aid, and it is against its exports that discrimination is widely applied. The tax payer and the exporter have more than once expressed their impatience about this state of affairs and the rosy prospects of balance in the long-run which I have described seem a little too remote to the responsible statesmen both here and abroad. How to hasten this process is easy enough to describe, - difficult to achieve. Quite recently, last February, the traditional recipes were outlined once more in a report to the President by the Public Advisory Board for Mutual Security. Let me just repeat them again. Europe should establish and maintain sound financial policies, thereby eliminating inflationary forces, curbing the excess demand for imports, and making it easier to orient its pattern of production towards exports. The underdeveloped areas should have a policy of more balanced development. Without neglecting their internal expansion they could rely more on their export potentials and provide Europe and North America with more imports of staple products. Finally, the United States could reduce barriers to imports. Trade not aid

is too well known a slogan to require any further discussion today.

III. - Role of Capital Movements

Even assuming that some at least of these policies can be progressively put into practice, that a determined and concerted effort is made to hasten the return to complete balance, a considerable number of uncertainties is still threatening ; much flexibility is needed to carry out changes in production patterns, to sustain stabilization efforts and to foster economic development. International movements of capital provide the answer to this. They have involved considerable amounts over the last few years. The United States was the biggest but by no means the sole exporter of capital. The bulk of the capital movements was due to the efforts made by your country and others to keep the flow of trade going in the absence of a balance of international exchanges. And merely by moving goods - whether equipment goods, raw materials or food - it became possible to invest more. If one looks beyond the immediate purpose of the grants in aid: relief and rehabilitation, one finds that they have directly or indirectly contributed to the investment activities of the countries which received them because in every case they allowed them to rebuild more quickly, and because in some cases they allowed them to re-export capital to other countries where investment was taking place.

Next to these important movements, whose apparent purpose was trade or "covering the dollar gap", important transfers of capital were directly motivated by the desire to foster investment proper. They included some grants as well as government and agency loans, in addition to traditional private investment. But here also the effect was double. Directly, they facilitated investment ; indirectly, they assisted trade and helped to cover the deficits in current transactions.

My argument today is that as we approach a balance, official assistance directly for balance of payment purposes is naturally declining and, as a matter of fact, so-called economic aid has dwindled quite substantially. On the other hand, more capital is likely to be transferred for investment purposes properly said in the form of government and agency grants and loans both because investment needs become more and more evident in advanced and underdeveloped countries alike, and because as balance is close at hand, lending risks are reduced. Indirectly this should contribute to a restoration of international balance. Finally, purely private investment in the traditional sense, now rather dormant but not dead, will again thrive when a new equilibrium is established.

The magnitude of international movements of capital is usually underestimated. According to a

survey now under way in our office, if one disregards purely private transactions, which are by nature more difficult to trace and estimate, taking account only of public long-term capital, i.e. of the transactions where at least one party was a government, one finds that the gross amount of such movements from 1946 to 1950 inclusive exceeded \$60 billion ; of this amount nearly \$30 billion were grants, over \$20 billion were loans and some \$10 billion represent repayments and repatriations.

\$60 billion is one-fourth of the value of world exports made during the same period. This statement alone is enough to indicate that capital movements have not played a marginal role but have been absolutely basic for the restoration of world production and of world trade. No less striking is the fact that the movements have originated in several countries, not only in Canada and the United States. True, these two countries provided \$35 billion out of \$60 billion, but Western Europe provided \$15 billion, the International Organizations including UNRRA about \$5 billion, for the major part a redistribution of U.S. grants, and the underdeveloped countries themselves another \$5 billion, largely in the form of repatriation of assets or repayments. As to the recipients, the main ones were Western Europe for nearly \$36 billion, the underdeveloped countries for \$8 billion, the International Organizations

for \$7 billion.

The very complexity of this pattern of capital exports and imports indicates how very lively the movements have been. Without the capital exports from the U.S., international trade would not have picked up as it did and other countries could not have been as able to export capital in their turn. But as it happened the U.S. policy has made it possible for Western Europe and International Organizations to do what, in effect, amounts to a redistribution of a part of the capital assistance they had received.

Let me try to illustrate this process of spreading resources in stages by two outstanding examples: France and Britain; France received from various sources roughly \$5.5 billion in loans and grants from 1946 through 1950. On her side, France re-exported at least \$2 billion of which \$1.3 billion went to her overseas territories. This does not include military aid to Indochina. Even more striking is the case of Britain. This country received roughly \$8 billion from the United States and Canada in grants and loans. In turn, the United Kingdom gave more than \$4 billion of public loans and grants and more than \$3 billion of private and short-term capital to the rest of the world. The beneficiaries included Western Europe which received relief and rehabilitation grants, or drawing rights under payment agreements and the European Payments Union.

They also included Australia and South Africa which received private capital, and India which obtained sterling releases.

If I have dwelt at some length on this rather complicated picture, it is not only to point out how the main beneficiaries of American aid in Western Europe have managed to spread part of the capital received by them to other areas at the expense of a certain loss in resources to themselves. It is rather to indicate how both trade and investment have been fostered the world over by the considerable and self-multiplying process of capital movements.

The urgency of the reconstruction task now fades somewhat into the background and the dollar gap has assumed less threatening proportions. United States grants for economic aid to Europe have been reduced from \$4 billion in 1949, the highest year, to \$1.4 billion in 1952. This means that capital movements equal to one quarter of world trade are a thing of the past. The task now ahead is a different one. Disregarding military aid and rearmament, a special problem, one can broadly say that the main problem in international finance is now the expansion of investment activities. This involves both encouraging local savings by assisting stabilizations and, what interests us here today, by directly assisting new investment all over the free world. This is a long process and the same movements

of capital which can hasten development and economic expansion can hasten the return to genuine balance.

Who can do this ? Governments, International Organizations, and private investors.

I do not know whether governments can at present increase their contributions to development. Governments can operate by making grants or loans. For all intents and purposes we can assume that when they make loans they follow the same policies as an international organization. To these policies we shall revert later on.

But grants which have been so important during the past few years have been considerably reduced. As you know, the United States contributed in grant form around \$22 billion from 1946 to 1952 for all purposes, mainly relief and rehabilitation, but also some for development. Disregarding military aid, these amounts have been declining sharply these last two years. Your President has recently indicated, and his words have been quoted the world over, that it would be a worthwhile aim to amplify what is now known as Point IV by contributions to the underdeveloped world as, when and if armament expenditures can be brought down. Too many political factors are involved to allow for any forecast in this connection. But we know that some special assistance is now forthcoming. We also know that other countries than the U.S. contributed some \$4 billion in grants from 1946 to 1952. France, the United Kingdom and

Belgium still make substantial grants and loans to their overseas dependencies. Obviously, to the extent grants for development are continued or even expanded, the task of lending agencies, including international agencies, becomes easier.

Next in line after the governments and their agencies comes the International Bank whose purpose is to make loans for development. As I see it, this is the field which now should undergo the greatest expansion. On the basis of the government guarantee which is part of our statute, we mobilize private savings from the United States and abroad. These funds are lent for assisting in basic development. By establishing transport, power, credit or essential industrial or agricultural facilities we induce directly productive enterprise and private savings to take root. By providing our member countries with technical advice on development programs and policies we can help create the opportunities and the stability which private capital is waiting for. The actual amounts involved do not need to be considerable, although as I indicated before they should normally be on a growing scale. The important thing is that the Bank by its investments should contribute to the changes in structure we have mentioned before; that through the transfers of capital which it brings about and through the ultimate product of its investments it should encourage a better balance in international accounts ;

that thus the basis for more local savings and more imports of private capital should be provided, be they from American, British, Swiss or from any other source, and a combination of them.

Last, but not least, private foreign investment. So much has been said about it that I hesitate to repeat it. A few highlights are, however, worth pointing out.

First, there has been a certain amount of private foreign investment going on since the war. It is estimated that American net private investment abroad approximated \$8.5 billion from 1946 to 1952. This represents an average annual investment abroad of some \$1,200 million and includes reinvested earnings. This amount is quite similar in real terms to the \$800 million a year which characterized the 1920s. Second, the biggest contribution did not come - as in the 1920s - from the so-called portfolio investor who buys foreign bonds or shares. It came from business corporations which expanded their branches or their subsidiaries overseas. Direct investment has continued while foreign bond issues have been very limited. This is not only due to the so-called extra risks which foreign bonds are reputed to carry. It is rather due to the fact that bonds in this country are mostly bought by institutional investors who have to observe rules of caution. A third point is even more important. The major part of private investment has been made in

related currency areas. The Americans invested mainly in Canada or in the Caribbean area. Moreover, they invested very largely in oil or mining ventures, the products of which could be sold for dollars.

Fourth, other countries have also been active in the private investment field. The British have been large exporters. The best estimate places the net exports of private capital from London at about \$3 billion from 1946 to 1952, or about one half of the American figure. British investments concentrated mainly in the Commonwealth, including the colonies. This time, however, the concentration in the currency area of the exporter was not only due to the attraction of security; it was undoubtedly due in part to the fact that freedom of movements of capital existed only within the sterling area.

As to Switzerland, we know very little except that it has progressively revived its capital market for foreign investment. We know that the Belgians have invested substantial amounts in the Congo and that the French have started rebuilding their financial ties not only in Africa but also in South America and in Asia.

One lesson can be drawn from this short description. Foreign private investment still exists. The amounts involved even under the difficult postwar period have not been negligible. There are people on the lookout for favorable opportunities. Within the

last six months I have, for my part, met representatives of four different groups, one from Los Angeles, who expressed their interest in participations abroad. But a rapid expansion of the movement is not very likely unless and until some real balance is re-established. We cannot expect the private investor to take the risk of uncertain exchange and political conditions. We cannot ask him to help in improving these conditions. This is the responsibility of the local governments as well as of friendly governments and of international agencies. What the private investor will do is to bring his contribution at the very time when equilibrium is reached. In other words, he will tend to reinforce a position of balance rather than to assist in bringing it about.

And this, Gentlemen, is my conclusion. Thanks very largely to great movements of capital - including large American grants - the world has increased its productive capacity and is approaching some kind of balance. The achievement of full balance and the opening up of the broad market which the underdeveloped areas offer to the exporters of the advanced countries require (among other things, such as sound local policies, liberal trade practices, etc.) a continuation of international capital transfers. Without wanting to exaggerate the role of the institution to which

I belong, I have attempted to describe for you how strategic it is. Government contributions have been all important ; they probably cannot continue at the same pace. Private investment could develop further but is waiting for opportunities. The role which has been ascribed to us in the Bank is to pave the way for more investment, for more balance in production and in international trade, and thereby in international payments. The very continuity of our action ought to assist not only in these fields but should encourage in due course other private sources, local and foreign, to join in and multiply the effects of our efforts. If that happens, the postwar period which is now coming to an end should be followed by an era of orderly expansion under the aegis of world development. Economic activity and international trade, after having been stimulated by reconstruction should now be stimulated by the need for new construction.

Leonard B. RIST

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Address to the Council on Foreign Relations

San Francisco, December 8, 1953
& Houston, December 10, 1953

PROSPECTS FOR PRIVATE INVESTMENT ABROAD



Introduction

The subject on which I am supposed to lead off tonight is one which has been, so to say, whipped to death. The obstacles to private investment abroad have been described and analyzed in numerous official and private documents. Last but not least of these is the very competent study on factors limiting American private investment abroad now being published by the Department of Commerce. Rather than reciting them to you once more in detail and elaborating on political and labor difficulties, threats of nationalization, administrative regulations relating to vetting or foreign exchange -- all obstacles which are substantial enough -- it seems to me more appropriate to place the problem in a wider perspective. Without looking back to the past, except as a basis for comparison, I would like to indicate how close is the link between world prosperity and private investment, how in this respect the world at the middle of the century does seem to offer opportunities and to what extent public (or agency) capital or public intervention is in this framework an ally of rather than a deterrent to private capital movements. In other words, instead

of limiting the discussion to the so-called "climate" in recipient countries, I would attempt to describe the world environment and its possible effects on private capital movements.

The considerable amount of capital and grant funds supplied abroad by the U.S. government since the war (\$42 billion net) has dwarfed the contribution of private investors. It is, however, a remarkable fact that the net outflows of private capital from this country since the war have averaged roughly \$800 or \$900 million a year, a figure very similar in comparable dollars to the net outflow in the '20s at the peak of the capital export boom. Surely, statisticians and economists will not let us forget that the figure in itself -- irrespective of the composition of the flow, a point to which I will refer later -- the figure in itself is small compared to the national income of the country (roughly 1/2%). It is also small compared with the income received on accumulated foreign investment (little more than one half of it). They point then to the remarkable achievements of the United Kingdom who in the peak capital export years around 1910 had an outward flow of new investment at least 2 and 1/2 times as great in comparable dollars, equivalent to 8% of the national income of the country and equal more or less to the income received on accumulated previous investment.

These comparisons are not quite adequate; they are actually misleading. They overlook the relative importance of foreign trade in the economy of the two countries and more than anything the changes which have occurred in the world picture

in the meantime. Moreover, they give us no clue to the future. The question inevitably remains whether private investment can substitute for official grants and loans.

The main fact about private investment which should dominate any discussion of it, is that unlike official capital it cannot be directed, it can only be induced -- at home as well as abroad.

Private investors do not choose to invest abroad, they look for opportunities and if the opportunities for a good return happen to be abroad, they will not hesitate, provided that security, liquidity and transferability are well assured. They will, however, hesitate -- and they do hesitate -- when this "climate" is not present. A good illustration is the direction which investment abroad has taken recently. From 1946 to 1951 the main effort of American investors has been directed towards Canada and the Caribbean area, i.e. to countries where currencies are convertible, or towards oil and mineral resources, i.e. commodities which enjoy an international market and can easily be translated into dollars. Thus, private investment is based on individual decisions and individual appraisals of the balance of profit and risk, and I will, therefore, per force base my analysis very largely on psychological factors.

I. Post World
War II

The recipient
countries

To describe the present conditions, it may well be to turn to the recipient countries first and to capital exporting countries next.

Aside from the position of prominence attained by the U.S., aside from the disruptions and subsequent rehabilitations of Europe, the great new event of the last 30-40 years is the drive for development of underdeveloped areas. Its importance cannot be overstated. More and more it is realized that independence from foreign political influence is not enough for the welfare of the people and that economic progress is necessary. But while until the '20s development was taken for granted, while in the '30s, under conditions of depression, the outlook for the poorer countries appeared dim and almost hopeless, several countries which have not been touched directly by warfare have benefitted by improved markets for their products; the eight years which followed the war have given them an added stimulus and an added impatience. Ten to fifteen years of continuous improvement in their relative position in the world is quite a factor of encouragement and it is hardly an exaggeration to say that on the whole they are becoming more and more aware of the requirements which they must fulfill if they want their economic development to proceed in an orderly fashion.

The thirties had brought about a wave of nationalism not only in the countries which were clamoring for their independence from colonial powers and which had reached a degree of intellectual maturity, but also in those which though independent for a long time, were suffering heavily in their foreign trade and in their internal prosperity. Unemployment and low wages added a strong

touch of labor demand for social protection and as we all know, this was universal and not limited to particular countries. The ideological underpinnings of both nationalism and labor demands had been provided by more than one century of free thinking and free speech and as soon as ideology is at stake, bitterness is added to all controversies. Nobody would venture to say these feelings are no more important issues: recent events in Iran and Bolivia tell a different story, but certainly most countries have ceased to believe that all their ills could be cured by simple recourse to nationalism or precipitate redistribution of income. Most underdeveloped countries have come to recognize that careful management of their own resources, proper inducements for their own and foreign investors, provisions of basic facilities for individual enterprises are at least as important as national pride or a heavily protective social legislation in hastening the pace of their progress. This reversal of trend can only be explained by the fact that with better economic conditions they have recovered their self-reliance and they instinctively believe that the world of tomorrow can and will be better than the one of today.

It is not enough, however, to say that better realization of their deep-seated problems has made several underdeveloped countries desirous to receive the assistance of foreign capital. One should add that as a basis for quicker economic advance, they are anxious to proceed not only with industrial, agricultural and

mining investment but with a type of investment which does not afford the greatest attraction for private venture capital. They want new resources for their government to carry out their public works or to build up their public services, but they want it at a rate which will not be a heavy burden to the economy as a whole or to their balance of payments. Moreover, public utilities, transportation, etc. which in the '20s or earlier had been a particularly fruitful field of operation for private foreign investment, are by nature subject to government control in some form or other. Very often, in view of distortions in the price system due to long periods of inflation, the rates need readjustment, but granting a favorable rate may mean upsetting cost of living indices or cost computations; more than anything, the amount of capital needed in these fields is usually quite considerable and cannot be corralled without a deliberate policy to that effect. There are instances where a better realization of the need for adequate rates can be observed but it will be a slow process before they are readjusted to a point where additional foreign private capital can feel secure enough to be interested in sufficient amounts, especially in the form of bonds. But it seems rather natural that the governments should try to supply basic facilities, either on their own or on the basis of foreign credits provided by agencies such as the International Bank. In so doing, they are actually opening up facilities which will serve other industrial or agricultural investments in which local

enterprises as well as foreign enterprises can thrive. If there is any truth in my previous statement that improved economic conditions contribute to stability and to the understanding by governments of the requirements of private capitalists -- local or foreign -- then, public works and economic advances of a basic character are bound to contribute to this evolution.

Under present circumstances therefore the capital which underdeveloped countries are desirous to receive is (a) for their own government purposes, fixed income long-term capital for basic services; (b) but at the same time -- and this is the point which deserves emphasis -- they become more and more aware of their need for additional resources in the other fields of economic activity, industrial, commercial, mining, etc.

One more favorable development in capital importing countries: a number of them have done their best to settle their past defaults. Of the defaults existing in 1946 among our member countries, two-thirds have by now been settled. It is not a vain gesture on their part. The improvement in the debt settlement position of a country is a sign to the private corporate investor that the country has greater confidence in its own future. Here also a great element has been the return of many countries to a state of relative prosperity over the last fifteen years, and of course the hope that on the basis of their restored credit they can induce greater imports of capital either from private sources or from such agencies as the one to which I belong.

In short, the impression prevails that the very desire to develop and to invest carries with it the desire to induce the import of savings from abroad. It brings about slowly but progressively a better appreciation of realities in many countries. Colombia, Peru, Turkey have recently passed legislation in favor of foreign investors. India, which seemed to have adopted a somewhat equivocal position as far as nationalization of foreign enterprises was concerned immediately after independence, has recently entered into long-term contracts with oil companies which seem to satisfy their minimum requirements. These things, of course, are given less publicity than the more unpleasant events or the more dramatic expropriations in other countries but it would seem that they are indicative of a trend and that is what really matters if we think of the future. With less poverty and more profits accruing to local investors, the nationalistic or socialistic excesses tend to lose their appeal; the profits reaped by foreigners are less conspicuous, they are not a cause of envy or political friction.

II. After World War II

Capital exporting countries

In the potential capital exporting countries, changes have also occurred. They are due largely to the new emphasis in this country on institutional investors. Individual investors abroad will be the exception. First of all, individual savers hardly own domestic corporate bonds; they entrust their money to savings banks, insurance companies and the like which, in turn, will buy corporate bonds. In other words, the investment managers

of these institutions will have to be doubly careful in order not to be subject to the criticism that they have wantonly risked the money which had been entrusted to them. Furthermore, after the unhappy events of the '30s, the various regulations affecting institutional investments have issued strong warnings against foreign bonds. The acceptable foreign ventures are in general limited to Canada for obvious reasons and the International Bank bonds which pool the guarantee of creditor and debtor countries. The foreign bond market therefore is -- in this country at least -- asleep for the time being.

It is interesting to note that this is not the case in England: bonds of Commonwealth countries or colonies have been floated in the London Stock Exchange for subscription either by individuals or by institutional investors. This is due in large part to free convertibility within the Commonwealth. Quite a few bond issues have also been made in Switzerland. It remains a fact, however, that the main capital exporting market -- meaning the United States market -- is not anxious to absorb foreign bonds except through the channel of our institution.

The holding of foreign shares is equally rare among individuals. The main difficulties in this respect arise less from the requirements of the Securities and Exchange Commission -- already a serious handicap for foreigners -- than from the fact that yields on American stocks compare often most favorably with yields on European stocks which would be the better known. We have, however, recently heard of several mutual trust organizers

who have contemplated investing in foreign stocks quoted abroad; how far the public can be sold on such an operation remains to be seen. The conclusion, therefore, as far as private investors are concerned, is that while foreign bonds and stocks are not entirely excluded for the future, the present interest in them is only slight.

So much for portfolio investment. The big advance since the war has been made in the field of direct investment, i.e. branches and subsidiaries of American corporations abroad. The conditions under which such investments are made are distinctly different from those which are implied in portfolio investments. In the first place, liquidity, that is to say the ability to transfer back immediately one's capital or one's earnings, is perhaps not quite as compelling for a branch operation as for an individual; the problem of convertibility is therefore in a way less immediate. If a corporation establishes a business abroad, it is for a certain period of time; another difference is that the new enterprise will have to live in the country where it is established. In this respect a change in attitude has occurred which is now receiving some publicity and deserves underlining: today enterprises with branches abroad are inclined to be proud of the advances they have made possible among the local population, of the extent to which they have not only brought their know-how in parts of the world where it was lacking, but also trained local people to carry greater and greater responsibilities. Several

corporations can also claim that their enterprises have indirectly provoked investment in economic activities around them. Life in Maracaibo is better than in many other parts of Venezuela. Sears and Roebuck's Brazilian establishment is now retailing a considerable proportion of Brazilian goods. In other words, there are many cases where the foreigner when implanting himself in a foreign country ceases to consider himself a stranger. This is a new trend which is consciously followed by a greater number of enterprises and let me add that it is a timely occurrence.

Last but not least, the real motives of the enterprises which expand their interests abroad can be extremely varied; many of them will take into consideration not only the anticipated profit but the need to diversify their sources of supplies and, more important, to increase them. They will need to ensure continuous delivery of their imported raw materials. The forecasters tell us -- and nobody seems to disagree with them -- that the dependence of the United States on foreign supplies in essential raw materials is bound to increase as production and income rise in this country. The needs of other industrial countries should follow the same curve. Increasing consumption of raw materials the world over is to be expected. Enlightened self-interest and national interest concur to induce prospectors and operators to multiply sources of supply abroad. Chances are that the pressure in that direction is only beginning.

III. General Considerations

At this point we may conclude that the recent economic

progress and the recession of ideological disputes in all the free world, the pressure for development in less developed countries, the anticipation of further increases in income in the more advanced countries do create an atmosphere conducive to more investment abroad. There are, however, some basic general considerations which cannot be bypassed. They relate to the comparative rates of return, to currency stability and convertibility and to the prospects of world peace and economic activity.

It has often been said that the rate of return on capital in the United States was very high compared with rates abroad and that there was, therefore, no incentive to export capital. While true of securities, this is clearly not true for direct investment. After all, capital has been flowing out. Statistics, however inadequate, confirm that high returns are not exceptional. Overlooking considerable variations from industry to industry and from year to year, one finds that in the U.S. something like 12% seems to be a reasonable figure for return on net worth after taxes. Manufacturing alone would average some 14% or more. In many cases of course, much more. According to a yet unpublished study by the United Nations, comparable figures in Latin America would be roughly 18% and 20%. The same source estimates that in 1950 U.S. corporations earned on their investments in Latin America some 12% in mining and smelting, 16% in manufacturing, 25% in distribution and petroleum. A notable but not unexpected exception is public utilities which average only 3.5%. Figures for Colombia or India are equally high. Moreover, these averages cannot take

account of the less obvious remunerations such as engineering fees, price differentials and the like which not infrequently accrue to the mother company before computation of the net earnings. To quote from a report of the National Industrial Conference Board in 1951 after an inquiry covering 106 companies or about 54% of U.S. direct investment abroad: "No serious bar to foreign investment exists because of the lack of profit opportunities. Only 11% of the respondents said that profit prospects were incommensurate with risks abroad. In the case of Africa alone, only 4.5% mentioned relatively poor prospects."

This, however, concerns only direct investment. The weakness in today's investment picture is that capital may be available from corporate sources for specific immediate productive projects. But half of the problem is to create the basic public works and services without which private industry cannot thrive. For this foreign countries do need long-term fixed interest financing, a kind of financing which is not available now in the market. The mechanism of portfolio investment abroad has not recovered from the '30s and its only substitute is either International Bank lending or governmental loan or grant assistance. Not before a new start can be made in the field of portfolio investment, can one seriously discuss the substitution of official financing by private capital operating on its own. This in turn depends on the broader hopes for stability -- monetary, economic and political -- in the world at large.

For there are other grave general obstacles which have unfortunately a considerable importance. The fact that most of the currencies remain inconvertible constitutes a threat to the foreign investor in spite of all the assurances he may receive. The deterrent effect is more immediately felt by portfolio investment than by direct investment but it influences both. Investors well know that inconvertibility is a sign of disequilibrium. Convertibility is not a policy, it is a result, a return to balance under conditions of reasonable security. Certainly the attainment of that goal would be a greater stimulant to capital movements than any other step.

As you know, the British who are more concerned with that problem than anybody else have made it quite clear that aside from their own internal financial policies, two points are of great importance in this respect: (1) that monetary reserves should be high enough to allow the country who restores convertibility to weather minor storms without faltering; (2) that trade conditions in the world be such that the rest of the world can earn from the United States more dollars from their exports than they have in the past. This is what the British call the policy of a creditor nation, accepting payment of the return on foreign investment in the form of goods and services. I do not want to discuss tonight the whole question of the U.S. trade policy or of trade discriminations in Europe, but I think that we should not look away from the fact that to a large extent the return to

convertibility is dependent upon the possibility of greater imports into the United States and some monetary support to the weaker currencies.

An alternative, of course, is the continuation of the present state of balance in which the United States continue to have in fact a surplus on current account financed largely through military aid. It may be that for a few more years the world will have to be content with that system. It cannot be said to be one under which the private or the corporate investor will feel secure enough to increase greatly his commitments abroad.

As to the last general conditions for a healthy development of private investment abroad, they require no elaboration. Peace in the world is one. To ensure it, unfortunately, big defense expenditures, and therefore high taxes, seem to be established for a while. Reasonable economic prosperity is the other, particularly with regard to this country. Without it, savings will fall lower or at least become even less venturesome, foreign countries will suffer again both in their internal stability and in their balance of payments and a set back in capital exports will be inevitable.

Various suggestions have been made to foster private investment abroad. They address themselves precisely to the broad worldwide risks which I have just outlined. Guarantees by a government agency have been tried; they aim at eliminating essentially the transfer and nationalization risks. The system

is limited to Europe at present and does not seem to have induced a substantial movement of capital. Another suggestion aims at assisting private enterprises in their investment abroad by giving them the support of a new international agency without government guarantee. Financed by governments and placed under the management of the International Bank, it would be called International Finance Corporation. The proposal has aroused great interest in underdeveloped countries and some interest in private business circles. As to the main prospective contributing governments, they do not seem too anxious to enter into new financial commitments even on a modest experimental scale at the present stage. According to a third proposal, tax advantages should be granted to private investors. As you know, some have already been given to the Western Hemisphere corporations. Whether or not this is politically feasible is an open question, but one can easily imagine that reductions or exemptions on taxes on corporate or private incomes, or allowances for accelerated depreciation could increase the attraction of a reasonable return abroad.

Conclusion

All these proposals have some merit and there is little doubt that they would increase the present flow of capital. None of them, however, can replace the assurance of a prolonged peace, the return to convertibility and monetary stability, and a continued economic progress especially in the underdeveloped countries. These are the real fundamental conditions for a further sizeable expansion of private capital movements. The trouble is

that we cannot count on private investment to provoke enough economic development or enough balance in the world all by itself. It will advance as soon as the results are achieved or when they are well in sight. It will not anticipate them. Private investment will increase its contribution to the world's welfare as, when and if the main factors of instability -- monetary or social -- have been eliminated or, at least, allayed. In this sense, official financing, far from conflicting with the interest of the private investor, tends to provide the basis on which investment risks abroad should become more and more comparable to domestic risks. When the broad basis exists, there would be no need for extraordinary stimulants and the painful experience of the past should be soon forgotten because the future, not the past, is what one invests in.
