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Washington, D.C.

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L.B. Rist: Policy Issues of Importance  
1950

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Policy Issues of Importance - Correspondence 01

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POLICY ISSUES OF IMPORTANCE \*1

1950

1. Letter from M.S. Szymczac, May 29, 1950 -  
re: Role of the IBRD
2. Financing Economic Development - Statements prepared for the  
Bank's Observer at the Economic & Social Council - July 6 & 26
3. Proposed Line of Credits - July
4. Gray Report - Correspondence with Gray & General Comments -
5. Letter to Harriman - Dec. 20, 1950 - Material to prepare answer -

Included in this file:-

UNITED NATIONS - Econ. & Social Council E/CN.1/50 6 April 1948  
Economic and Employment Commission - Third Session  
Memorandum on the Report\*\* of the First Session of the Sub-Commission  
on Economic Development (Doc.E/CN.1./48) submitted by the I.B.R.D.  
Letter from Mr. McCloy to The Hon. Trygve Lie, Secretary General U.N.  
and Staff Memorandum dated March 31, 1948  
\*\* Report U.N. ECOSOC E/CN.1/47 dated 18 Dec. 1947

R-154 - March 19, 1948 - Report of the Sub-Commission on Economic  
Development of the U.N.Econ. & Employment Commission and Staff  
Memorandum (March 15, 1948)

NO. 545-13  U.S.A.

Letter to Harriman &  
Draft not Sent

December 20, 1950

The Honorable W. Averell Harriman  
Special Assistant to the President  
White House  
Washington, D. C.

Dear Averell:

Many thanks for your letter of December 8th.

I needn't tell you how difficult it is to make any estimate as to the amount of new commitments which the Bank might make between now and July, 1952, since any such estimate must necessarily depend on a number of fundamental policy decisions which are now under consideration by the various member governments of the Bank, and particularly the United States Government. However, I have instructed my staff to prepare an estimate on various assumptions, and I will let you have a note on this matter as soon as possible.

I very much hope that we can get together soon since I agree with you that there are many things for us to talk over together. I am leaving today for a short vacation in Florida but I will get in touch with you as soon as I get back.

With kind regards,

Sincerely yours,

(Signed) Gene

Eugene R. Black

RHDemuth:ep

cc: Mr. Black  
Mr. Sommers  
Mr. Demuth  
✓ Messrs. Rist and Rosenstein-Rodan  
Mr. Cliff

Mr. Eugene R. Black

December 19, 1950

Leonard B. Rist

Preliminary Memorandum: Role of the International Bank  
in the Present International Situation

1. The Present Situation

The situation can be briefly summarized as follows: The United States, still the main source of Bank funds and of capital equipment desired by Bank borrowers, is beginning to rearm urgently. There is already manifest in parts of the U.S. Government a tendency to judge every institution by the narrow criterion as to whether its activity will directly contribute to the military effort of the U.S. within the next 3-4 years. If this tendency becomes dominant in U.S. policy, the Bank may find itself "put on the shelf" for the duration of the mobilization and the war which may develop.

If the Bank has no useful role to play now, we must all agree that it should hibernate and await a more favorable season for reawakening. However, careful examination shows that the Bank is not useless; it continues to have an important part to play in the world of today.

2. The Need for the Bank

The Bank was intended to meet a fundamental need in the world of today -- the need for an economic institution which could undertake the fertilizing, productive role in the under-developed areas which direct private investment used to be able to perform by itself. This need continues to exist; moreover, the demand that it be met has acquired a momentum all over the world which cannot easily be halted. Nearly every undeveloped country and colony has a development program in course or is preparing one. The hopes and aspirations of millions of people are at stake.

A decision to inactivate the Bank would, also, be counter to the long-term interests of the U.S. itself. The U.S. took an active part in founding the Bank because of its own permanent interest in the development and reconstruction of the world. Jettisoning fundamental objectives in a time of emergency is not the act of statesmanship but of panic. Proper policy requires meeting emergencies in such a manner that permanent objectives are not lost but, if possible, furthered.

In terms of resources, continuance of progress in this direction is not forbiddingly expensive. The export of capital equipment from the U.S. to all of the underdeveloped areas put together was less than 3% of the total U.S. production of such equipment in 1949. The percentage of this call in the future could be even less as the development programs are rescreened to take account of the present higher scarcity value of equipment. The key note of the present situation is not to be negative but to be selective.

It must also be pointed out that the objectives which the Bank serves should not be regarded as something unconnected, or even competitive, with the present over-riding objective of the Western World. Communism cannot be countered by direct military means alone; the effort to strengthen the weaker nations of the non-communist world must be an integral part of the policy of the U.S. and her allies. Economic development, soundly conducted, can furnish the needed strength while at the same time, in many cases, it provides vital raw materials for the defense economy.

### 3. Changes in Bank's Role in Present Situation

While the Bank should continue to function, the present situation will have an influence on its activity. Probably the main changes should be the following:

a) The Bank should devote even more attention to the over-all economic development programs and policies of its borrowers. It will need to be interested in the whole framework governing the use of resources rather than only in the marginal amount furnished by the Bank. For example, if the Bank makes possible the purchase of a hydroelectric plant from abroad, we will have to be sure that this does not free resources to bid for additional supplies of luxury goods either from abroad or at home. We will have to study the over-all economic policies of the borrower from the viewpoint of how economic development can be most efficiently facilitated in the light of a general world shortage of civilian goods: Any increase in incomes which is not needed to increase production and which results in increased consumption with higher imports or at the expense of investment at home will need to be prevented or siphoned off.

b) The Bank will have to emphasize, even more, economizing on or postponing the import of equipment items and try to secure all possible ingenuity in using local or more easily procurable items. European sources of equipment may have to be tapped more than before: less of European capacity may be converted to war production than in the U.S. for air defense reasons, and European countries will probably give exports a higher priority over civil consumption than will the United States.

c) More flexibility may now be exercised in granting "local currency" loans even if the indirect impact of such loans is to increase imports of necessary consumer items, provided such items (food, for example) are either in surplus or abundant supply. A greater priority may now be given to those "local currency" loans which primarily aid in mobilizing the internal resources of a borrower without even indirectly adding to its imports. That is, all other things being equal, if a borrower needs additional reserves to enable it to finance an investment program without upsetting its monetary arrangements, such a loan now has additional attractiveness by very reason of the fact that it would not be used to finance imports.

d) The Bank will naturally, for economic reasons, encourage the acceleration or production of items in critically short supply in the world. Unquestionably, the U.S. Government will take direct action in this field through Export-Import Bank loans or, more likely, through prepayment arrangements. The Bank will have to keep in touch with such activities and try to influence them so that the results will be coordinated with Bank activities and not be destructive of existing development programs.

Letter to Harriman  
Prepared by D. Rodan -  
not sent

Black's f.

DRAFT

December 18, 1950

Dear Averill:

I want to thank you very much for your letter of December 8, and am delighted to use this opportunity to indicate my ideas about the role the Bank might play during the next twelve to eighteen months. The background of this thinking can best be seen in my letter to Gordon Gray of November 2. I enclose therefore that letter as well as our Staff Memorandum on the Gray Committee Report.

Any present estimate of what total of new commitments by the Bank might be guessed between now and July, 1952, for the underdeveloped areas as well as Europe, clearly depends on policy decisions by the Bank's Members State Governments and, particularly so, on those of the United States Government. The Gray Committee Report emphasizes the fundamental importance of an international action for underdeveloped countries which would galvanize the hopes of free peoples and create a faith and a confidence in a better future for two-thirds of the world population. The order of magnitude of aid proposed by this Report seems to be sufficient to generate hope in the underdeveloped areas, sufficient to make a real impact on the rate of their development and also to be within the technical absorptive capacity of these countries. The \$1.2 billion of grants and loans proposed <sup>last autumn</sup> did not seem unduly/to strain the U.S. economy. The recent increase in the rate of mobilization raises a new problem as to the availability of resources. I should like to stress two points in that connection: First, Atlantic armaments will not suffice if the peoples of the underdeveloped areas come to expect <sup>land reform and social betterment in the P.R. other parts of the world</sup> lend-ownership, economic liberation and betterment from Russia. The Western world can offer these peoples a better opportunity of develop-

ment (which include peaceful agrarian reforms) at a cost to the advanced nations which is but a fraction of additional armaments, which would become necessary if Communism spread among the one billion free peoples of the poor areas. It is vitally important, both on moral and practical grounds, to show them that their fate and opportunity to improve their future are so much at heart of the advanced nations that a special high priority for resources required for their development will be allocated even in times of stress and general mobilization. Secondly, the amount of resources which should receive a high priority for development needs is not as great as might appear at first sight. The total imports by all the underdeveloped areas of durable and equipment goods from the United States in 1949 amounted to 2.9% only of the <sup>total</sup> volume of sales of <sup>these</sup> durable goods in the United States. A priority in export licenses of such goods would involve a sacrifice in <sup>a</sup> strain but not one which should not prove unsurmountably difficult. Durable and equipment goods, moreover, only form about one-third of all the goods required by the underdeveloped countries while about two-thirds are non-durable goods of which a high proportion will be in the category of surplus commodities.

If the United States, United Kingdom and other governments decide to implement a development aid to poor areas under international auspices, and if funds from other sources (grants and loans of about \$600 to \$700 million) were made available) then the International Bank could increase its volume of loans to underdeveloped areas up to a total of \$400 million per annum. Even then, however, a considerable time might elapse before this total is reached since a great deal of preparatory work, programming studies, etc. would have to be undertaken before the full rate of lending could be realized. In addition, as you are aware, there would still be a considerable

lag between commitments and disbursements. Assuming that the decision to implement an action on the Gray Committee lines were to be taken by about March of 1951, a year's time at least would be required before lines of credit for four to six years development programs in various countries could be accorded. It would be, therefore, only<sup>by</sup> about the spring of 1952 that the full rate of annual commitments of \$400 million could be reached. A very rough and tentative guessed estimate for lending in a year after the spring of 1952 may look as follows:

Rough & tentative Estimates

TABLE I

<u>Area</u>	<u>Population in Millions</u>	<u>National Income Per Head \$</u>	<u>National Income \$ Billion</u>	<u>Gross investment at present \$ Billion</u>	<u>Possible increase of investment \$ Million</u>	<u>External aid \$ Million</u>
Asia	800	70	56	4.5	700	600
Latin America	157	210	33	4.4	400	200
Africa	<u>198</u>	<u>100</u>	<u>20</u>	<u>1.8</u>	<u>300</u>	<u>200</u>
Total	<u>1,155</u>	<u>100</u>	<u>110</u>	<u>10.7</u>	<u>1,400</u>	<u>1,000</u>

TABLE II

(In Millions Dollars)

<u>Area</u>	<u>External Aid</u>	<u>Loans</u>	<u>Grants other than technical assistance</u>	<u>Loans by IBRD</u>	<u>Loans from other resources</u>
Asia	600	300	300	200	100
Latin America	200	175	25	125	50
Africa	200	175	25	125	50

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

# ROUTING SLIP

Date Sept. 26, 1950

TO-	Name	Room No.
1	Mr. Knapp	306
2		
3		
4		

FOR-

Action	Initialing
Approval	Preparing Reply
Comment	Previous Papers
Filing	Noting and Returning
Full Report	Recommendation
Information	Signature

REMARKS

*Mr. Knapp sent  
this in to Mr Adler  
to note Mr. Knapp's  
small comment on P. 2.  
Adler returned this to  
Mr. Knapp. RKE*

FROM- J. H. Adler

Adler?

Loan Policy -  
General

Sept 25, 1950

ADDITIONAL DOLLAR LENDING POWER OF I.B.R.D.

The power of the I.B.R.D. to make loans in U.S. dollars is determined (a) by the amount of its own capital paid up in U.S. dollars and gold, and (b) by the amount it can raise through the sale of bonds in the U.S. capital market. Since the source of (b) cannot be stated with any degree of exactness without making more or less arbitrary assumptions, it is preferable to make a minimum estimate (which in the long-run should definitely prove to be too pessimistic) based on the assumption that an amount of bonds equivalent to the guarantee of the U.S. Government can be marketed without difficulties. If loan disbursements and loan commitments made up to August 31, 1950 are taken into account, one arrives at an approximate amount of \$2,533 million as a minimum estimate of the Bank's additional lending power over and above prospective repayments or sales from its portfolio without its guarantee. The derivation of this sum is shown in the following table:

U.S. capital contribution	\$ 635 million
2% of capital subscription of all other member countries, paid in U.S. dollars or gold	99 "
Bond issues equivalent to U.S. capital subscription not paid up	2,540 "
Bond issues equivalent to Special Reserve Fund	15 "
" " " " Additions to Special Reserve over next five years (estimate)	50 "
General reserve accrued from interest earnings (approximately)	30 "
Additions to general reserve over next five years (estimate)	<u>100</u> "
Total	\$3,469 million

Minus:

Loan disbursements in U.S. dollars	612 million
Undisbursed balances of effective loans	131 "
Loan commitments not yet effective	<u>193</u> "
Total	\$ 936 million
Additional dollar lending power	\$2,533 million

It should be noted that the dollar holdings of the Special Reserve Fund are included in the above figures, although under the Articles of Agreement this reserve cannot be used for loans; to the extent to which this special reserve is built up, however, it can be considered as a guarantee for further borrowings by the Bank. The amount shown for loan disbursements in U.S. dollars includes disbursements in Swiss francs since Switzerland is not a member country and the bonds are assumed to be "covered" by the guarantee of the U.S. dollar subscription not paid in. The figures of undisbursed loans and loan commitments are shown in full, although loans may be made in currencies other than U.S. dollars, <sup>or Swiss francs</sup> in which case the additional dollar lending power would increase by the corresponding amount.

The power to make further U.S. dollar loans would be greatly enhanced by the convertibility into U.S. dollars of the currency of at least some member countries. The additional dollar loans would represent, however, a net addition to the supply of dollars available to foreign countries only to the extent to which American investors would consider the unpaid capital subscription of these countries as a guarantee as fully effective as that of the U.S. Government and therefore purchase more dollar bonds issued by the I.B.R.D., or because they would be willing to purchase, for dollars, I.B.R.D. bonds denominated in currencies of other member countries (e.g. Canada).

As indicated above, the estimate of \$2,533 million of the Bank's unused dollar lending power is a net amount, exclusive of loans which can be made from funds received in amortization of loans outstanding. The gross dollar lending power is not likely to be substantially larger than the net amount, if the rate of lending is accelerated in the course of the next few years and reaches an amount of \$500 million per year. In that case, consideration would

have to be given to the possible limitation of the Bank's ability to make further dollar loans under the above-stipulated assumptions regarding the Bank's capacity to borrow funds in the U.S. capital market.

PRINCIPAL AMOUNTS DISBURSED, AND REPAYMENTS OF PRINCIPAL,  
ON LOANS GRANTED BY I.B.R.D., July 1, 1949 - Sept. 15, 1950

The I.B.R.D. disbursed nearly \$88 million on loans during fiscal 1949/50. Approximately \$72 million, or some 80% of the total, were directed towards "underdeveloped" areas of the world. From July 1, 1950, to mid-September 1950, an additional \$12 million of principal was disbursed by the I.B.R.D., with "underdeveloped" countries again receiving over three-fourths of the total.

During fiscal 1949/50, principal repayments on I.B.R.D. loan commitments totalled nearly \$1.8 million. All such repayments were made by European countries. From July 1, 1950 to mid-September 1950, additional repayments of \$1.8 million were made, with approximately \$1 million being received from "underdeveloped" areas.

Principal Amounts Disbursed, and Repayments of  
Principal, on Loans Granted by I.B.R.D.  
July 1, 1949 - September 15, 1950

(in thousands of dollars)

	<u>Disbursements</u>	<u>Repayments</u>
<u>July 1, 1949 - June 30, 1950</u>		
<u>"Developed" countries</u>		
Belgium	10,373	-
Finland	2,445	0,153
Luxembourg	1,773	0,099
Netherlands	<u>1,271</u>	<u>1,200</u> 1/
Sub-total	<u>15,862</u>	<u>1,452</u>
<u>"Underdeveloped" countries</u>		
Brazil	21,960	-
Chile	4,012	-
Colombia	2,681	-
India	31,158	-
Mexico	9,810	-
Yugoslavia	<u>2,386</u>	<u>0,300</u>
Sub-total	<u>72,007</u>	<u>0,300</u>
Total = fiscal 1949/50	87,869	1,752 2/
<u>July 1, 1950 - Sept. 15, 1950</u>		
"Developed" countries	2,448	0,749
"Underdeveloped" countries	<u>9,360</u>	<u>1,080</u>
	<u>11,808</u>	<u>1,829</u>
<u>Grand total, July 1, 1949 - Sept. 15, 1950</u>		
"Developed" countries	18,310	2,201
"Underdeveloped" countries	<u>81,367</u>	<u>1,380</u>
	<u>99,677</u>	<u>3,581</u>

- 1/ Notes guaranteed by the Netherlands Government were delivered to the I.B.R.D. prior to July 1, 1949, as collateral for \$12 million Dutch shipping loans. These notes in turn were sold by the I.B.R.D., under its guarantee, to private U.S. institutional investors. The \$1.2 million shown above comprises the payments made to such U.S. investors by the Dutch shipping companies during fiscal 1949/50.
- 2/ Cancellations totalled some \$7.6 million during fiscal 1949/50, divided as between "developed" \$6.44 million and "underdeveloped" \$1.2 million. Cancellations have not been included in the above tables.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

# ROUTING SLIP

Date 10/2/50

TO-	Name	Room No.
1	<i>Mr. Knapp</i>	<i>306</i>
2		
3		
4		

## FOR-

Action	Initialing
Approval	Preparing Reply
Comment	Previous Papers
Filing	Noting and Returning
Full Report	Recommendation
Information	Signature

## REMARKS

FROM-

*J. H. Adler*

*Loan Policy*

PRINCIPAL AMOUNTS DISBURSED, AND REPAYMENTS OF PRINCIPAL,  
ON LOANS GRANTED BY THE I.B.R.D.,  
JUNE 30, 1947 - SEPTEMBER 15, 1950

"Developed" Countries

(U.S. \$ thousands)

	<u>Disbursements</u>	<u>Repayments</u>
<b>A. <u>Fiscal 1947/48</u></b>		
France	158,000	-
Netherlands	195,000	-
Denmark	16,500	-
Luxembourg	<u>8,600</u>	-
	<u>378,100</u>	
<b>B. <u>Fiscal 1948/49</u></b>		
Netherlands	12,000	12,000 <sup>1/</sup>
Denmark	23,500	-
Luxembourg	1,400	-
Belgium	<u>-</u>	<u>16,000<sup>2/</sup></u>
	<u>36,900</u>	<u>28,000</u>
<b>C. <u>Fiscal 1949/50</u></b>		
Netherlands	1,271	- <sup>1/</sup>
Luxembourg	1,773	0,099
Belgium	10,373	
Finland	<u>2,445</u>	<u>0,153</u>
	<u>15,862</u>	<u>0,252</u>
<b>D. <u>July 1, 1950 - September 15, 1950</u></b>		
Netherlands	0,414	- <sup>1/</sup>
Luxembourg	-	0,497 <sup>3/</sup>
Belgium	0,373	-
Finland	<u>1,547</u>	<u>0,102</u>
	<u>2,334</u>	<u>0,599</u>
Grand Total	<u>433,196</u>	<u>28,851</u>

<sup>1/</sup> Notes guaranteed by the Netherlands Government were delivered to the I.B.R.D. during fiscal 1948/49, as collateral for \$12 million Dutch shipping loans. These notes in turn were sold by the I.B.R.D., under its guarantee, to private U.S. institutional investors. Repayments of \$2.4 million have since been made to such U.S. investors by the Dutch Shipping companies, comprising \$0.6 million in fiscal 1948/49; \$1.2 million in fiscal 1949/50; and \$0.6 million between July 1, 1950 and September 15, 1950.

- 2/ The I.B.R.D. \$16 million loan to Belgium in March 1949 was secured by \$16 million Belgian Government bonds. These bonds were received and sold by the Bank, under its guarantee, to U.S. investors during the same month. No payments have been made by Belgium to the U.S. bondholders.
- 3/ Including \$0.448 million Luxembourg bonds sold by the I.B.R.D., without recourse, to the B.I.S. in July 1950. These bonds have been received by the I.B.R.D. covering the Luxembourg loan of August 1947.

PRINCIPAL AMOUNTS DISBURSED, AND REPAYMENTS OF PRINCIPAL,  
ON LOANS GRANTED BY THE I.B.R.D.,  
June 30, 1947 - September 15, 1950

"Underdeveloped" Countries

(U.S. \$ thousands)

	<u>Disbursements</u>	<u>Repayments</u>
A. <u>Fiscal 1947/48</u>	-	-
B. <u>Fiscal 1948/49</u>		
Mexico	2,900	-
Chile	1,500	-
Brazil	<u>14,900</u>	-
	<u>19,300</u>	
C. <u>Fiscal 1949/50</u>		
Mexico	9,810	-
Chile	4,012	-
Brazil	21,960	-
Colombia	2,681	-
India	31,158	-
Yugoslavia	<u>2,386</u>	<u>0,300</u>
	<u>72,007</u>	<u>0,300</u>
D. <u>July 1, 1950 - September 15, 1950</u>		
Mexico	1,971	-
Chile	0,069	0,235
Brazil	3,795	-
Colombia	0,935	-
India	2,588	0,845
Yugoslavia	<u>0,113</u>	<u>0,005</u>
	<u>9,471</u>	<u>1,085</u>
Grand Total	<u>100,778</u>	<u>1,385</u>

NO. 545-13  U.S.A.

Gray Report

**DECLASSIFIED**  
Date: 11/15/2010 Btu

CONFIDENTIAL

R-393

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

**DECLASSIFIED**  
Date: \_\_\_\_\_

From: The Secretary

November 29, 1950

GRAY COMMITTEE REPORT

Attached for information is a staff paper of  
comments regarding the Gray Committee Report to serve  
as a basis for future discussion.

Distribution

Executive Directors and  
Alternates  
President  
Vice President  
Department Heads

Sec: 5-36

**CLASSIFIED**

R - 393

Date:

November 27, 1950

THE GRAY COMMITTEE REPORT

A. BACKGROUND

On March 31, 1950, Mr. Gordon Gray, who had recently resigned as Secretary of the Army, was appointed Special Assistant to the President of the United States for the purpose of heading a committee to study the post-1952 United States balance of payments prospects and their implications on United States foreign aid policy.

On June 13, 1950, as a result of informal conversations with Mr. Gray, the management of the Bank arranged a meeting between Mr. Gray and his chief associates and the senior staff of the Bank, in order to give Mr. Gray information about the Bank's operations and policies which might be relevant to his studies. In the course of this meeting Mr. Gray asked for a rough estimate of the rate of United States dollar lending which the Bank might be expected to do during the years immediately following 1952 and a further estimate of the amount of United States dollars which the management believed could be raised in the market during the same period. Mr. Gray was told, in answer to the first part of his question, that a rate of \$250,000,000 per year would, in the management's opinion, be a reasonable estimate and, in answer to the second part of his question, that the management anticipated no difficulty in raising funds at the same rate during the period in question.

It subsequently developed that the \$250,000,000 figure mentioned at this meeting had given rise to some misunderstanding, particularly as to the assumptions on which the estimate was based. Accordingly, Mr. Gray wrote Mr. Garner a letter, dated June 19, 1950, a copy of which is attached as Appendix A, asking for clarification on this point. Mr. Gray's letter was answered on August 2, 1950, by a letter from Mr. Black, a copy of which is annexed as Appendix B.

At the same meeting Mr. Gray asked whether his associates might feel free to call on the Bank for factual information needed in their studies. Mr. Gray was told that the Bank would be glad to furnish information and Mr. Rosenstein-Rodan was designated as the Bank's liaison officer for this purpose and from time to time supplied factual material requested by the committee.

On October 26, 1950, Mr. Gray sent a confidential draft of his report to Mr. Black with a request for his comments. Mr. Black replied by letter dated November 2, 1950, copies of which were distributed to the Executive Directors on November 16, 1950 (Secretary's No. 604).

The official text of the Gray Committee Report was published on November 13, 1950. It differed in a few respects from the draft which was the subject of Mr. Black's letter of November 2, 1950.

The analysis and the recommendations in the Report represent Mr. Gray's considered judgment, and "they should not be taken as necessarily representing the views of other officials in the Executive Branch."

B. SUMMARY

The Gray Committee was appointed on March 31, 1950, with a special assignment to "make recommendations in charting the United States Government's course in the field of foreign economic policies and programs," remembering that their "basic purpose has been and must continue to be to help build a structure of international economic relationships which will permit each country, through the free flow of goods and capital, to achieve sound financial growth without the necessity for special financial aid." (p. III). The Gray Committee's central problems at that stage were the dollar shortage and the way to fill the dollar gap in a situation in which "production has increased to the point where shortages have diminished and the central economic international problem has shifted to the field of trade." (President Truman's letter to the Honorable Gordon Gray dated March 31, 1950). In the summer of 1950, however, the Korean events led to major changes in the world economic situation which changed the dimensions of the problem, even if they did not change its basic nature.

The dollar shortage was so much reduced that for the time being at least the market problem was replaced by a problem of resources. At the same time, the importance of convertibility, as an immediate issue, receded into the background. Under these circumstances, the Gray Committee shifted its emphasis and produced a comprehensive report on the major issues of American foreign economic policy. It contains a detailed description of economic conditions all over the world and an analysis of the strengths and weaknesses in each area. Its conclusions refer to three groups of problems: (I) Western Europe, (II) Underdeveloped Areas,

(III) United States Commercial Policy, and can be summed up as follows:

I. Europe

1. The ECA would have achieved its aim by 1952 had it not been for rearmament. The additional rearmament burden, however, would make it impossible for Europe to maintain both its high rate of investments and its high rate of exports. If these were lowered, the defense economy would produce distortions in the economic structure of Europe which would require a major effort of adjustment afterwards and might unnecessarily prolong Europe's need for economic aid. It would be better, therefore, to continue the ECA aid, apart from military equipment beyond 1952 for another three or four years beyond the present time. This aid should be planned on the basis of an overall assessment of requirements rather than on a specific project basis. The aid would enable Western Europe to undertake rearmament without cutting unduly either its standard of living or its investments or its exports. It would thus enable Western Europe to maintain a healthy economic structure and should, on balance, make Europe more creditworthy than would otherwise be the case.

2. The desirability of maintaining the financing of overseas investments by the United Kingdom and the importance of sterling balances for development within the sterling area is stressed, as well as the primary role of the pound sterling for a return to a healthy world economy. "Progress towards sterling convertibility should take the form of a gradual relaxation of discriminatory trade controls on the part of the sterling area countries." (p. 44). When all the conditions for convertibility,

other than adequate reserves, will have been fulfilled, a stabilization loan for the sterling area should be considered.

3. The EPU fulfills a vital role of promoting integration within Western Europe although it contains an element of discrimination against the dollar area. For a transition period of the next few years the aim of integration in the EPU has a priority over the element of discrimination implied in it. "Thus basically the EPU should be viewed as a transitional mechanism in the process of achieving both a greater integration within Western Europe and an approach toward freer trade between Europe and the rest of the world." (p. 39). Accordingly, a part of the ECA aid should continue to be allocated to the EPU.

## II. Underdeveloped Areas

1. Over and above the needs of the defense economy, the fundamental long-run need of development in underdeveloped areas should not be forgotten. "The economic stagnation, political unrest, and extreme poverty of most underdeveloped countries represent a growing threat to the rest of the free world ... Despite great obstacles, it is more important than ever to the security and well-being of free countries that social and economic progress be achieved in the under-developed areas." (p. 8-9). It is therefore the major interest of the Western world to galvanize the hopes of free peoples and to create a faith and confidence in a better future for two-thirds of the world population. A clear evidence of American intent and continuity of aid are as important in this respect as dollars. "Economic development cannot be soundly planned from year to

year; development programs must be framed on a long-term basis ...

Borrowing countries must have a reasonable degree of assurance that, if they pursue sound policies, additional capital required for the further progress of the program will be available. Indeed, the ability to provide further funds is one of the major instruments for obtaining sound performance on the part of the borrower. (p. 66) ... To attempt to plan, program or operate on a year to year basis -- or to appear to do so -- is a guarantee both of reduced effectiveness and of greatly increased eventual cost in pursuit of our objectives." (p. 22).

"In contrast to the industrial countries, most of the under-developed areas of the world have, in general, shown relatively slow progress in the post-war period ... A major obstacle to development in underdeveloped areas has been their long standing poverty itself, which has made it impossible to produce a sufficient margin over subsistence needs to build for the future. To overcome this obstacle, these areas need a flowing of capital from abroad substantially greater than they have been receiving ... There have also been major obstacles to development unrelated to financing. Administrative machinery and technical skills are grossly inadequate. The inertia of custom and tradition frequently results in a lack of enterprise. Many of the governments are new and inexperienced, and, in some cases, there exists an unwillingness to take the steps necessary for development within the countries themselves. While these factors limit the rate at which new capital can be absorbed and new techniques learned, they can be gradually overcome." Development aid "activities have not been pressed with a vigor that the situation requires and they

have not yet been fused into a sufficiently effective program." (p. 5).

2. Local resources must necessarily form the main part of development funds. They should be supplemented, however, by external aid in the form of private investment, public loans, technical assistance and grants. Private investment is the most desirable means of development and the original Point IV proposals for investment treaties and guarantees to private investors should be expedited. But in the early stages of development, the function of private foreign investment must necessarily be strictly limited. It could grow only gradually as economic conditions and climate improve and those can only improve if other sources of financing prop them up over a transition period of several years. What private investment cannot do, public lending must. Cooperative development programs for underdeveloped areas are therefore recommended running for at least five years and financed by

- (a) International Bank loans supplemented by Export-Import Bank loans for a combined total of \$600 to \$800 million a year, of which half or more should be supplied by the International Bank. These loans should be coordinated with effective technical assistance activities.
- (b) continuation of private investment; and
- (c) direct United States grants for development and for technical assistance of \$500 million per annum.

The total external dollar aid to underdeveloped areas forthcoming per annum would thus amount to roughly speaking

i)	International Bank - plus Export Import Bank	\$ 800 million
ii)	Private investment (this being the amount including reinvestment of earnings which took place in 1949, five-sixths of which was in the petroleum industry	\$ 500 million
iii)	Grants and technical assistance	\$ 500 million
	Total	<u>\$ 1,800 million</u>

This would represent an increase of roughly speaking, \$1 billion over the amounts flowing at present. "In addition, other countries could be expected to contribute through international agencies to development activities, and a considerable volume of investment will be made by Western European countries, largely in dependencies." (p. 73).

In spite of many difficulties of absorbing capital, it is probable that these sums represent a "needed, feasible and effective program."

3. In order to enable the Export-Import Bank to supplement the International Bank's lending in underdeveloped areas by an amount of from \$200 to \$400 million per annum, its lending authority should be increased by about \$1.5 billion from the present \$3.5 to \$5 billion. Like the International Bank the Export-Import Bank (a) should make untied loans, (b) should in selected cases make loans for local currency expenditures, and (c) should supplement its loans by technical assistance.

### III. United States Commercial Policy

1. Changes in U.S. economic policy which affect international trade are recommended, notably:

(a) long-term extension of the "Reciprocal Trade Agreements Act;" temporary power to the President to make unilateral tariff reductions,

(b) international negotiations to end cargo preference schemes (as the best way to end the U.S. fifty-fifty shipping clause and similar measures),

(c) recasting of farm price support policy so as to minimize its worst effect on the rest of the world.

2. When export controls are introduced, development needs should have a high priority.

3. For the emergency period of the next few rearmament years, the U.S. should aim at the creation of an international mechanism for the allocation of important strategic raw materials.

#### IV. Administrative Recommendation

A single new agency is proposed to coordinate and administer grants, technical assistance and foreign lending (separated from the agency providing military equipment).

#### C. THE MAGNITUDE OF THE PROGRAM FOR THE UNDERDEVELOPED AREAS

There cannot be any disagreement on how important it is that the peoples of the underdeveloped countries should have a greater opportunity to increase their standard of living. Their "economic betterment must obviously have a central place, but since results can accrue by and large only over a considerable period of time, the immediate need is to generate hope and a promise for the future that carries conviction of fulfillment."

(p. 21).

The increase in external development aid proposed amounts to about \$1 billion (\$350 million increase in grants and technical assistance and \$600 to \$650 million increase in lending by the International Bank and the Export-Import Bank). It may be hoped that further increases of aid from other advanced countries -- both as envisaged already by the Commonwealth countries in the Colombo Committee and by others -- may step up this increase to say around \$1.5 billion. Three main questions arise in that connection:

- i) "Can these amounts be technically absorbed?"
- ii) "Is it enough to make an impact on the rate of progress in underdeveloped countries sufficient to raise their hopes and galvanize their efforts?"
- iii) "Are these amounts within the capacity of advanced countries to provide without straining their economies?"

It is obviously impossible in a short paper to study these questions fully. Nor can secure knowledge on these matters be claimed. Some background information is given, however, in the light of which the issue may be judged.

Considerable development is already taking place in the underdeveloped countries at the present time. The 800 million people inhabiting those areas of the free world have the equivalent of a national income of \$120 to \$150 billion per annum (equal to half the national income of the United States) and realize a gross investment of between \$12 to \$16 billion per annum (approximately one-third of the amount of gross investment in the United States). The proposed increase in external aid represents on the average a 10% increase in their gross investment.

Of the \$12 to \$16 billion worth of gross investment in the underdeveloped areas, only \$4 to \$6 billion represent net investment. The bulk of the external development aid on the other hand would represent almost entirely net investment and would thus increase the total net investment by 25 to 35%. The rate of growth at present, mostly between 1 and 2% per annum -- and therefore frequently no increase at all of income per head -- might be stepped up by perhaps 50% providing a rate of growth of from  $1\frac{1}{2}$  to 3% per annum. National income over a generation might thus increase by 40 to 100% instead of 25 to 50% and thereby assure a greater opportunity for progress and a rising standard of living.

The program recommended is "not large in comparison with" the U. S. "grant program of recent years." The grants proposed (\$500 million) constitute one-fifth of one percent of the American national income; if the proposed Export-Import Bank loans to underdeveloped countries (\$300 million per annum) were added, the U.S. external development aid would represent around one-third of one percent of national income. Contributions from other advanced countries might also range between say one-twentieth and one-fifth of one percent of their national incomes.

In view of the relative order of magnitudes involved (very sketchily indicated in this paragraph), it is difficult to disagree with the conclusions of the Gray Committee Report that the amounts of aid proposed are within the absorptive capacity of underdeveloped areas, are sufficient to make a real impact on the rate of their development and will not unduly strain the economies of the advanced nations. However, one important

qualification must be expressed. The way in which the aid is administered is at least as important as the amount of the aid. Unless means are found to administer the aid with maximum effectiveness, the program might fail to achieve the hoped for results and thus not justify the additional strain on the already heavily burdened economies of the advance countries.

D. THE ADMINISTRATION OF THE PROGRAM

"The administration of programs of development in underdeveloped areas -- including loans, technical assistance, grants and measures to encourage private investment, should be much more closely coordinated than is now the case." (p. 18). This coordination should best be achieved under international auspices. "Operation through international organizations may be essential to accomplishing the basic purposes of aid. It is frequently not possible for any one country unilaterally to give effective guidance on internal operations without creating fears or suspicions of interventionist motives, which would defeat major purposes of the program. Such programs, therefore, will frequently be most effective if operated through international organizations, staffed in part by nationals of countries in which the particular underdeveloped country has confidence." (p. 98). This point is stressed repeatedly (pages 13, 17-18, 22, 57-58, 65, 66, 68-69 and 98). It must be stated, nonetheless, that some specific recommendations of the Report fail to reflect these principles and are to some extent in conflict with its avowed purposes. The Report proposes, in fact, that different agencies administer the grants and technical assistance on the one hand and public loans on the

other hand. No method of coordinating their activities between themselves and with the International Bank, nor any method of effectively coordinating the development assistance program of the U.S. with those of other countries, is proposed. It is true that the combined effects of all these operations are consistently emphasized and that it is taken into account that well used grants may enhance the creditworthiness of underdeveloped countries and their ability to absorb and repay sound loans. It is only on the assumption of grants and technical assistance of \$500 million that an International Bank lending of say \$400 to \$500 million per annum and an Export-Import Bank lending of \$200 to \$400 million per annum is assumed to be possible.

Nevertheless, the recommendations in the Report do not contain any solution to the problem of coordination which the discussion correctly recognizes to be of primary importance. The authors of the Report are evidently aware of the significance of this inconsistency since the Report points out that it "does not attempt to deal with the problem of coordination at broader policy levels or the relationship to various mechanisms which are now in existence or under discussion for this purpose. (p. 18) ... Much further work remains to be done ... to convert this policy statement into an operating program." (p. IV).

This is the aspect of the Report that was stressed in Mr. Black's letter to Mr. Gray of November 2, 1950. It is also the aspect of the Report which poses the most serious problems for the Bank and its member governments.

Failure to provide effective coordination for different types of aid, and for aid from different sources, may make the aid program less effective in promoting development, and may have serious implications for international agencies operating in the development field including particularly the International Bank.

To be fully effective, loans, grants and technical assistance to a particular country should be combined in proportions which are appropriate to the economic situation of the recipient. This can be done if the several types of aid are administered by one agency, but if each is controlled by a different agency, without coordination, confusion is sure to result. As an example, loan programs which could be undertaken only on the assumption that they would be accompanied by substantial grants would be held up, in the absence of assurance that grants would be forthcoming. As a further example, countries which ought to receive aid largely in the form of loans are likely to be reluctant to apply for loans and thereby reduce the chances of obtaining grants.

The same kind of confusion might arise if aid is administered under various independent national and international agencies without coordination. Several different agencies would then be discussing a recipient country's development program and offering it advice. The policies recommended might be inconsistent or even contradictory and, as Mr. Black's letter to Mr. Gray points out, the multiplicity of voices might make it difficult to induce the recipient countries to adopt the measures which are required in the interests of their own development.

Moreover, the problem of coordination involves broader considerations. If the leading advanced nations now decide to provide foreign economic aid preponderantly under national auspices, the movement for international administration, started at the Bretton Woods Conference, will receive a severe setback. The advanced countries will appear to have lost faith in the efficacy of providing economic aid through international agencies.

As far as the Bank itself is concerned, the implications may be extremely serious. If grant programs on a substantial scale are to be administered through national agencies, the Bank might well find itself in a position in which its lending operations could not be maintained even at the present level. The Bank's experience in Europe during the ECA period indicates that when national agencies can provide substantially larger amounts of capital than the Bank, and can provide them on substantially more favorable terms, the Bank's own operations naturally tend to shrink to almost nothing, at least in the absence of an effective system of coordination.

It thus seems clear that the problem of coordinating aid of different types and aid from different sources is of paramount importance and that, if large grant programs are to be undertaken by the United States and other advanced countries, the Bank should be prepared to express an opinion as to the ways in which such coordination can be achieved.

The solution to this problem involves answers to a number of difficult questions, of which the following are the most important:

- (a) "Should foreign economic aid, whether in the form of loans, grants or technical assistance, be wholly or in large

part integrated and administered through a single international agency?"

(b) "If integration is desirable, would the Bank be the appropriate agency to undertake the job? If so, what changes or reorganization are required to enable it to do so?"

(c) "If integration is not desired what form of coordinating machinery can be devised that will most effectively promote development, reduce conflict between the several aid programs and preserve the principle of international action in the development field?"

All of these questions are presently being studied.

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11/15/2010 BFW

CONFIDENTIAL

Date:

November 2, 1950

Dear Gordon:

I want to thank you for your kindness in sending me a few days ago the latest draft of your report to the President on "Foreign Economic Policies" and for your telegram of October 25th, asking for any comments I might care to make. Even a hasty reading discloses the report as a whole to be a balanced, thoughtful and highly useful document and, subject to certain reservations, I welcome it as an important contribution to a field in which we are all interested. Although I have not had opportunity as yet to give the draft the detailed study which it deserves, I do want to give you my general reaction to those portions of the report which most closely relate to the work of the International Bank, namely the portions concerning the provision of additional assistance for economic development. You understand, of course, that I am expressing only my personal views since, because of the confidential nature of the draft report, I have not felt free to discuss the matter with the Bank's Executive Directors.

I think you have performed a very valuable service in underlining how important it is that the peoples of the less developed countries should have a greater opportunity to increase their standards of living. Your analysis of the inevitably gradual nature of the development process and of the obstacles which must be overcome if the process is to be accelerated accords completely with the Bank's experience. And I am in full agreement with your conclusion that the provision of additional financial and technical assistance by the more advanced countries to those less developed is desirable, provided that the conditions you indicate are fulfilled, namely that the amount of additional capital furnished is within the economic capacity of the less developed nations to absorb and of the more advanced nations to provide without straining their economies, that the assistance is effectively used for desirable development purposes, and that the continued provision of assistance to any particular country is made contingent upon the fulfillment by that country of reasonable standards of performance.

In the report you point out the necessity for integrating programs for technical assistance with any grants made to underdeveloped countries. While I agree with this viewpoint as far as it goes, I do not understand why a distinction should be drawn between loans and grants for this purpose. It seems to me that the essential point is the need for integrating technical and financial assistance for proper development programs, irrespective of whether any particular program is to be financed by grant, by loan or partly by each.

I was glad to note the statement in your report that, in the case of development programs particularly, operation through international organizations may be essential to accomplish the basic purposes of aid and your conclusion that such organizations should therefore be strengthened and the scope of their activities increased. As you indicate, international action may frequently be more effective than national action in inducing the less developed nations to adopt necessary, but politically difficult, domestic measures. Operation through international organizations also helps to insulate those nations furnishing assistance from

charges of invasion of sovereignty, of economic exploitation, or of discrimination as between different underdeveloped countries. Finally, and not least important, operation through international organizations would appear to be the best, if not the only, method of effectively integrating the development assistance program of the United States with those of other countries.

Despite your analysis of the desirability of operating through international organizations and your recognition that foreign aid for development must be so integrated as to promote consistent development planning, those important considerations are not reflected in the specific recommendations you make on the administration of the program. You propose, in effect, as I understand it, that the United States should provide, for development purposes, an additional \$300 million in loans and an additional \$400 million in grants and technical assistance per year for the next several years, and that this assistance should be furnished through national rather than international agencies. No method of coordinating this expanded United States program with the programs of existing international agencies or with the assistance programs of other advanced nations is suggested. There would be not one voice but several voices discussing with a country its needs and development program as a whole. The very multiplicity of voices, perhaps expressing inconsistent or even conflicting policies, would make it difficult to induce countries to take the painful and unpopular decisions which, as you recognize, are often essential to their further progress.

Such a situation would in my judgment seriously limit the effectiveness of the proposed United States program in promoting the development of backward areas. And I should be less than frank if I did not add that it would also, in my opinion, seriously impair the ability of existing international organizations operating in the development field, including the International Bank, to expand or even continue the contribution they are presently making. In that respect your recommendations seem to me inconsistent with the statement in your report that it is essential to the success of development assistance that it be provided mainly through international institutions and that, therefore, the United States should continue its stated policy of regarding the International Bank as the primary public institution for extending development loans.

I recognize that the problem of coordinating development assistance programs, particularly on an international scale, involves decisions of great importance and difficulty for the United States and other countries.

While I have not as yet arrived at any definite conclusion in my own mind as to the best solution, I do have some views on the subject which, together with other points in the report, I should be happy to explore with you should you so desire. I am convinced that, unless this problem is faced squarely, your report will not produce the important and beneficial consequences in the development field which it ought to have.

With kind regards,

Sincerely yours,

Eugene R. Black

The Honorable Gordon Gray  
Special Assistant to the President  
The White House  
Washington 25, D. C.

APPENDIX B

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

Washington 25, D.C.

Office of the President

August 2, 1950

Dear Gordon,

I very much welcome the opportunity afforded by your letter of June 19 to Bob Garner to go further into the question of the future lending operations of the International Bank. Although the political and military events of the last few weeks are bound to cause material changes in the economic situation of many of our member countries and particularly in the international accounts of the United States, I assume that a brief statement of our views prior to the newly arisen situation continues to be of interest to you, since it may give you an indication of our general concept of the role of the Bank in the field of international economic and financial cooperation and assistance.

As you know, in the last few years the lending operations of the International Bank were limited by several adverse factors. Our member countries were slow in realizing the importance of justifying loan applications by preparing economically sound development programs and properly engineered specific projects. Moreover, some member countries lacked the experience of properly preparing and presenting their applications, while others showed some reluctance to come forth with loan requests, especially when they hoped that funds would be made available to them from other sources. In other instances, the burden of existing foreign debts, particularly in United States dollars, or the prevalence of undesirable fiscal and monetary practices made us doubtful as to the immediate creditworthiness of loan applicants.

The figure of \$250 million which was mentioned in our first conversation as a possible annual average of loans to be made by us during the years immediately following 1952, anticipated an increase over the present level in the number of economically justified and properly engineered projects as our member countries become more familiar with our requirements in this respect, and as technical assistance from the Bank and other sources acts to expedite and improve their presentation. We are ourselves anxious to assist our member countries in the preparation of over-all development programs which will give greater economic justification for the individual projects submitted to us. We feel certain that this assistance will speed up our processing of the loan requests filed with us. Furthermore, any educational and administrative improvements which can be

brought about by technical assistance in its broadest meaning will also be a favorable factor. It must be recognized, however, that the effects of such reforms can only bear fruit very slowly.

One important factor which may tend to increase the number and amount of loan applications is the fact that the Bank has recently announced that it would, under certain conditions, consider financing not only the direct foreign exchange expenditures arising from a project, but also the local expenditures, to the extent that the borrowing country needs to import additional consumer goods or raw materials to prevent the project from creating inflationary pressures. It is likely that several countries will now find it desirable and expedient to prepare and submit projects which involve large amounts of local currency, in the hope that the Bank may undertake to finance a part of the local currency expenditures. This may well tend to increase the amount of eligible loan requests over the \$250 million figure.

It must be recognized, however, that the main limitations which we foresaw derive from the general world financial and economic picture. In the absence of convertibility of sterling and other major European currencies, and failing a clear hope of its early restoration, we must necessarily, in undertaking loan commitments in dollars, consider the balance of payment prospects of the borrowing country with the United States. In such consideration, we assume, of course, a continued high level of income in this country and a slowly rising demand for imports. Nevertheless, we must refrain from encouraging sizeable increases in dollar debt service charges since the outflow of dollars which is at present supplementing individual remittances and gold purchases does not seem to us to be of a stable and continuous character. The size and the direction of the capital outflow from this country are difficult to forecast for the future since private foreign investment is subject to wide fluctuations. We have not felt, therefore, that a substantial rise in the already heavy dollar debt burden of the outside world can be contemplated with equanimity.

Such are the assumptions upon which our estimate was based. The outlook, however, would be quite different if fundamental conditions improved materially. Obviously, if such an improvement resulted in the restoration of convertibility, and if sufficient leeway in the form of monetary reserves were available to the exchange authorities of Western Europe, we would be less concerned with the dollar position of our member countries. Clearly, a balance between the United States and the rest of the world at a high level of international trade can ultimately be achieved only through an increase of United States purchases of goods and services from abroad. But if it were the established policy of the United States Government to facilitate a continuous capital outflow, even in moderate amounts, until such a balance is attained, we would feel less hesitant to allow the world dollar debt burden to grow, provided that such an increase would result in a rise in the productive

August 2, 1950

and export capacity of the debtor countries. Clearly also, if the difficulties arising from the admittedly heavy dollar debt service of some European countries could be alleviated, we would be in a position to consider greater assistance to Europe itself rather than concentrating our efforts, as we anticipate now, on under-developed countries or on moderate lending to assist in the production of commodities which would earn or save dollars in the colonial areas. In other words, if convertibility and a certain degree of continuity of outflow of dollars, even though moderate, seemed reasonably well assured, the creditworthiness of our borrowers would probably be considerably enhanced and thereby our lending capacity.

Assuming these favorable circumstances, it is not impossible to anticipate that our loans might reach as much as \$400-\$500 million, net of principal repayments. This amount represents in our opinion the order of magnitude of the net dollar lending that probably might be suitable for financing from institutional sources on a sound loan basis. In this connection I should like to point out that I do not feel our borrowing capacity to be a limiting factor. The marketability of our bonds is well established and it would take a major international crisis or a steep rise in interest rates in this country to impair it.

Although in this letter I have discussed only the amount of dollar loans which the Bank might be able to make, I believe that a long-run solution of the dollar problem can be achieved only by generally increasing production throughout the world. For this reason we feel that Bank lending, in non-dollar currencies as well as in United States dollars, for productive investment purposes, makes a significant contribution to this goal. Under the favorable assumptions we have just outlined, both types of lending should be able to be increased very substantially from their present levels.

I hardly need to say that I should welcome an opportunity to meet again with you and further discuss these matters, particularly since the changing international situation may make a renewed exchange of views desirable.

With kind regards, I am

Sincerely yours,

/s/

Eugene R. Black

Mr. Gordon Gray  
Special Assistant to the President  
White House  
Washington 25, D.C.

THE WHITE HOUSE

APPENDIX A

Washington D.C.

June 19, 1950

Honorable Robert L. Garner  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C.

Dear Bob:

After the meeting with you and your staff last Tuesday, I discussed with members of my staff the figure of 250 to 300 million dollars which you mentioned as the probable limit of the Bank's lending operations. We soon realized that we were not clear as to the assumptions underlying this estimate. Among the things about which we were uncertain are whether it was a net or gross lending figure, whether it assumes the present or an improved state of technical and administrative competence in underdeveloped countries, what it assumes with regard to dollar supply in other respects, and whether it includes any lending to Europe. No doubt there are other assumptions which you may wish to make explicit.

I should also be interested in knowing how your estimate of potential Bank operations would be affected by the use of assumptions different from those underlying the 250 to 300 million dollar figure.

We enjoyed the opportunity to meet with you and your staff, and I believe we profited by the meeting.

With kindest regards, I am

Sincerely,

/s/

Gordon Gray  
Special Assistant to the President

NO. 545-13  U.S.A.

Proposed Line of  
Credits

*Lending Techniques*

Mr. J. H. Adler

July 28, 1950

William G. Welk

Proposed 'Line of Credit' for IBERD Borrowers

As we agreed during our conversation this morning, I am giving you below very briefly the thoughts which occur to me with regard to the above mentioned subject.

I think that the proposal is on the whole excellent and that it will greatly facilitate the establishment of a closer longer-term relationship between the Bank and its borrowers. It will make possible a more sustained and continuing interest on the part of the Bank in the economic plans and programs and in the general economic development of the member countries which come to us for assistance, with particular benefit to the less developed ones to which the Bank could thus supply not only continuing financial assistance but also much needed economic and technical advice.

Although the new proposal thus seems eminently acceptable, it will entail much more intensive and continuing work on the prospective borrower's economy and therefore a greater volume of activity for this department. <sup>R</sup>As to the form which the Bank's indication of intention to provide a credit line to a particular borrower might take, I should think that it would be difficult to generalize on this matter, but that the nature of the Bank's indication of intention will have to vary according to the circumstances of the particular case. Our offer will probably be a much firmer one to countries with a clear economic outlook and no particular administrative problems than to less developed countries confronted with both economic and administrative uncertainties.

It occurs to me also that in the Working Party's discussion of the proposal some attention might be given to the advisability, in case of lines of credit to run for several years, of a periodic review by the Bank of the country's economic conditions and creditworthiness, say at semi-annual or yearly intervals.

Adler  
Clark

Mr. Orvis A. Schmidt

July 21, 1950

W. A. B. Iliff

Working Party on General Counsel's Proposal with regard to Lending Techniques

1. At a meeting on Wednesday, July 19th, the Staff Loan Committee discussed General Counsel's memorandum of July 12th, in which he advocated that the Bank should be prepared in appropriate cases to inform a member government of the approximate amount of credit which the Bank would be willing to extend to it.
2. The Staff Loan Committee expressed itself as in agreement in principle with General Counsel's proposal and asked the Loan Director to set up a Working Party to examine the proposal in detail and to make recommendations as to the technique of putting it into effect.
3. After consultation with the other Heads of Departments, the Working Party, constituted as follows, has been set up:
  - Mr. Orvis Schmidt (Loan Department) - Chairman
  - Mr. John Adler (Economic Department),  
with Mr. Harrison Clark as Alternate
  - Mr. Aron Broches (Legal)
  - Mr. S. Aldewereld (Treasurer's)  
with Mr. Robert Cavanaugh as Alternate.
4. Miss Wolfson will act as Secretary.
5. The Chilean people in the Loan Department have already been considering an approach of this kind in the case of Chile, and the study they have so far given the subject may be of some use to you in your deliberations.

CC:

Mr. Orvis Schmidt  
Mr. John Adler  
Mr. Aron Broches  
Mr. S. Aldewereld  
Miss Wolfson

Mr. R. L. Garner ✓  
Mr. L. B. Rist ✓  
Mr. D. Crena de Iongh  
Mr. D. Sommers  
Mr. H. Folk

W?

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Date: 11/15/2010 BAW

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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Mr. Rist

## STAFF LOAN COMMITTEE

(This document is for the use of the President, Vice President and members of the Staff Loan Committee only. Its contents should not be communicated to other persons except in the course of duty.)

Minutes of Meeting of Staff Loan Committee Held at 10:00 a.m., Wednesday, July 19, 1950 in Room 1005

1. There were present:

- Mr. E. R. Black
- Mr. W. A. B. Iliff
- Mr. D. Sommers
- Mr. D. Crena de Iongh
- Mr. L. B. Rist
- Mr. O. H. Folk, Secretary

In attendance

- Mr. R. H. Demuth
- Mr. P. N. Rodan
- Mr. J. H. Addler
- Mr. H. N. Graves
- Mr. A. Broches
- Mr. B. B. King

2. The Committee discussed:

- (1) A Reply to Mr. Gordon Gray's July 10 letter;
- (2) The President's Speech at the Governors' Conference;
- (3) Western European Development Bank; and
- (4) SLC/O/234, General Counsel's July 12 Memorandum advocating that the Bank should be prepared, in appropriate cases, to inform a member government of the approximate amount of credit which the Bank would be willing to extend to it.

3. As regards Item (4) above, the Committee expressed itself as agreeing in principle with the General Counsel's proposal, and asked the Loan Director to set up a Working Party to examine the proposal in detail and to make recommendations as to the technique of putting it into effect.

4. The meeting adjourned at 11:45 a.m.

Distribution

- |                          |                        |
|--------------------------|------------------------|
| 1. Mr. Eugene Black      | 9. Mr. A. S. G. Hoar   |
| 2. Mr. R. L. Garner      | 10. Mr. O. A. Schmidt  |
| 3. Mr. W. A. B. Iliff    | 11. Gen. R. A. Wheeler |
| 4. Mr. D. Sommers        | 12. Mr. E. G. Burland  |
| 5. Mr. D. Crena de Iongh | 13. Mr. H. Folk        |
| 6. Mr. L. B. Rist        | 14. Files              |
| 7. Mr. L. B. Rist        |                        |
| 8. Mr. R. H. Demuth      |                        |

~~Loan Policy?~~  
Lending Techniques  
new file

Mr. W.A.B. Iliff

July 20, 1950

Leonard B. Rist

With reference to your memorandum of July 19, I have appointed Mr. John H. Adler and Mr. E. Harrison Clark, (Alternate) to represent my department in the Working Party to be set up to study and make recommendations on the technique that the Bank might adopt in indicating to member governments the rate at which the Bank is prepared to negotiate loans with them over a period of several years.

cc: Mr. Adler  
Mr. Clark

am

## OFFICE MEMORANDUM

TO: Mr. L. B. Rist  
Mr. D. Crena de Iongh

DATE: July 19, 1950

FROM: W. A. B. Iliff

SUBJECT:

I shall be grateful if you would nominate the person in your Department to represent you on the Working Party that we decided in Staff Loan Committee this morning to set up to study and made recommendations on the technique that the Bank might adopt in indicating to member governments the rate at which the Bank is prepared to negotiate loans with them over a period of several years. (Mr. Sommers' memorandum to Staff Loan Committee, dated July 12th, refers.) (SLC/0/234)

I am appointing Mr. Schmidt to represent the Loan Director, and Mr. Sommers is appointing Mr. Broches. I am arranging for Miss Wolfson (Trainee in the Loan Department) to act as secretary to the Working Party.

W.A.

CC: Mr. Schmidt  
Mr. Sommers  
Miss Wolfson

A

# STAFF LOAN COMMITTEE

**DECLASSIFIED**

Date: 11/25/2010 *BAW*

Date: July 14, 1950

*R*  
TO: Mr. Rist

A meeting of the Staff Loan Committee will be held at 10:45 a.m.

on Wednesday, July 19, 1950, in Room No. 1005

*(7)*

Harold Folk

Secretary, Staff Loan Committee

## AGENDA

The Committee will consider the attached SLC/O/234,  
Memorandum from the General Counsel to the Committee dated  
July 12, 1950.

### Distribution

- |                          |                        |
|--------------------------|------------------------|
| 1. Mr. Eugene Black      | 9. Mr. A.S.G. Hoar     |
| 2. Mr. R. L. Garner      | 10. Mr. O. A. Schmidt  |
| 3. Mr. W.A.B. Iliff      | 11. Gen. R. A. Wheeler |
| 4. Mr. C. A. McLain      | 12. Mr. E. G. Burland  |
| 5. Mr. D. Crena de Iongh | 13. Mr. H. Folk        |
| 6. Mr. L. B. Rist        | 14. Files              |
| 7. Mr. L. B. Rist        | 15.                    |
| 8. Mr. R. H. Demuth      | 16.                    |



# Record Removal Notice



<b>File Title</b> Policy Issues of Importance - Correspondence 01		<b>Barcode No.</b>  1849864		
<b>Document Date</b> 12 July, 1950	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To : Staff Loan Committee From : D. Sommers				
<b>Subject / Title</b> Memorandum ST L (0/234)				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Chandra Kumar</td><td><b>Date</b> 31-Oct-14</td></tr></table>	<b>Withdrawn by</b> Chandra Kumar	<b>Date</b> 31-Oct-14
<b>Withdrawn by</b> Chandra Kumar	<b>Date</b> 31-Oct-14			

NO. 545-13 U.S.A.

Financing Eco. Develop.  
ECOSOC Meeting

*next Board meeting*

CONFIDENTIAL

Secretary's Memorandum No. 668

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

**DECLASSIFIED**

Date: 11/15/2010 BZW

May 14, 1951

FROM: Acting Secretary

MEASURES FOR THE DEVELOPMENT OF  
UNDER-DEVELOPED COUNTRIES

With reference to Secretary's Memorandum No. 667 to which was attached a copy of a report entitled "Measures for the Development of Under-Developed Countries", there is attached herewith the Statement which will be presented to the Economic, Employment and Development Commission by the Assistant to the Vice President on behalf of the Bank.

It is requested that this statement be treated as confidential until it has been presented to the Commission.

Distribution

- Executive Directors
- President
- Vice President
- Assistant to President
- Department Heads

STATEMENT ON BEHALF OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT BEFORE THE  
ECONOMIC, EMPLOYMENT AND DEVELOPMENT COMMISSION

---

The management of the International Bank has examined with great interest the Report of the Group of Experts entitled "Measures for the Economic Development of Under-Developed Countries".

May I say, at the outset, that we believe that the authors of the Report have made an outstanding contribution through their careful and comprehensive analysis of the problems of economic development. They have pointed out with clarity, and with a commendable sense of proportion, the many different factors involved in the development process and the interrelationship among them.

Often in the past, the concept of development has been thought of too narrowly as synonymous simply with the availability of physical resources, capital and technology. Indispensable as these factors are, they will not, as the Experts have pointed out so forcibly, bring about development by themselves. Rather, the pace of economic progress is determined by a great variety of inter-related elements — among which, in addition to physical resources, capital and technology, perhaps the most important are the energy and effectiveness of the government, the social institutions of the country, the distribution of wealth and opportunity among the various classes of the population, the effectiveness of the educational effort, and the character of the economic and financial policies and institutions governing the allocation of the country's resources. Economic development can proceed rapidly in any nation, as the Experts have emphasized, only if there is a strong national will to develop — a will to put the long-range interests of the country as a whole ahead of short-term political advantages and ahead, too, of immediate financial advantage to particular interests or groups, however influential they may be.

The Bank welcomes the sense of urgency which pervades the Report. With the permission of the Commission, I would like to repeat in this connection what the President of the Bank stated to the Economic and Social Council at its recent meeting in Santiago. He said, "I want to press on you again the view that development is an urgent task. We cannot build a stable world out of nations whose populations are engaged in a tooth-and-nail struggle merely to keep themselves alive. We can achieve stability only when men are loyal to the social order in which they live, and when that order provides an equitable sharing of rewards, so that men can live as neighbors rather than as rivals for an insufficient share of the world's goods.

"It is imperative for all of us to help provide the means for men to create a better tomorrow for themselves and for their

children. It is imperative to help build a common stake in the future which will lead to new unity and new vigor among the nations which share the same ideals about the dignity of man. This can be a great contribution to peace today. Carried on continuously and constructively, it can be an even greater force for peace and stability in years to come."

We have been glad to note that the Experts did not permit their statement of the urgency of development to obscure their analysis of the very difficult and complex problems which must be faced if the pace of development is to be materially accelerated. The problems they analyze in their Report are the very problems with which the Bank, and most of the other international organizations, have been grappling for the past few years. The Report recognizes that to overcome these difficulties will in most countries involve painful readjustments; in some, major structural readjustments of the economy will be required. Our experience in the Bank amply confirms this analysis.

I don't want to take the time of the Commission to go over each of the many suggestions for domestic action discussed in the Report. There are a few, however, which I would like to single out for special mention.

The first is the need to give high priority to education. In those countries where, as a result of social revolution or otherwise, great efforts have been made to spread education to the people at large, the result has usually been a spurt in economic progress; where education has been neglected, development has rarely achieved much momentum. This is scarcely surprising, for the many steps necessary to achieve dynamic progress -- and particularly the creation of a national will to develop -- depend very largely on the existence of a literate and inquiring population.

Within the general field of education, the Bank is glad to note the emphasis put by the Experts on three fields -- the growth of agricultural extension facilities, the training of skilled workers and the training of executives and administrators able to plan and execute development programs.

It has been our experience that, in practically all of the under-developed member countries of the Bank, extension services are still in their early stages. Knowledge of advanced production techniques, better seed, better methods of fertilization and the like is usually available or can be made available without undue difficulty -- but to disseminate that knowledge to the farmers, and to induce them to apply it, is a major undertaking. It is a task that has not yet been tackled with the energy it deserves; even the importance of the task is not widely enough appreciated. Yet successful execution of a comprehensive extension program, accompanied by an appropriate agricultural credit program, can work

a minor revolution in agricultural production in many countries and can thereby raise the standard of living of a large segment of the population, make more resources available for industrial development, create a broader market for industrial products, and generally stimulate the entire development process.

The lack of trained executives and administrators and of skilled workers at all levels is, as the Experts have stated, a major bottleneck to development -- and it is one that takes a considerable period to break. We are peculiarly aware of this difficulty in the Bank, for the most formidable single barrier to the expansion of our development activities has been the inexperience of the less developed countries in working out programs and projects up to the point where they are ready for financing. They have also frequently encountered difficulty in finding the proper personnel to manage new projects. The Bank has rendered considerable assistance to its members in meeting these difficulties. Our engineers have often helped prospective borrowers on the technical aspects of projects under consideration. Our loan officers and economists have often been able to make suggestions as to administrative or organizational arrangements for a project or as to the plans for its financing. And we have increasingly been asked by our members to recommend foreign executive and technical personnel to be employed by them to assist in the effective operation of enterprises we have financed.

Progress has been made in this matter; it is reflected in the increasing number of loan applications received by the Bank and in the increasing number of development loans we have been able to make. It is our confident hope that the international and bilateral technical assistance programs, as they grow and begin to bear fruit, will help to speed up the proper preparation of projects and thus permit acceleration in the pace of our lending activities.

Another suggestion for domestic action which we believe the Experts properly stressed is the need to mobilize domestic resources more energetically and to channel them into productive investment. The Experts have called particular attention in this connection to the advantages to be derived from the creation of development banks and corporations. The Bank wholeheartedly supports this position, although a warning is perhaps in order that no single type of institutional organization will meet the varying needs of different countries. The particular type of organization required -- how it is to secure its funds, what types of financing it is to do, what its management and control are to be -- must be carefully worked out in the case of each country. The experience of other countries can provide a guide, but not one that should be copied blindly.

As the Commission is doubtless aware, the Bank has been quite active in this field. We encouraged and provided substantial assistance for the creation of the new Industrial Development Bank of Turkey and released one of our former officers so that he could accept the position of first General Manager of that Bank. We also played a leading role in the creation of the new Development Bank of Ethiopia. Both of these institutions have received substantial credits from the Bank. In Mexico we helped to work out a consortium arrangement of private banks, with the participation of Nacional Financiera, the official Mexican financing agency, which serves the same general purpose as the Development Banks, and we have made a line of credit available to the consortium. Similar proposals for Development Banks or consortium arrangements in other countries are under discussion. Furthermore, we assigned a member of our staff to work for a number of months as an adviser to the newly established Development Bank of Honduras -- and another member of our staff has been assisting Iceland, at its request, in investigating the desirability of creating a new investment agency.

The mobilization of domestic resources and the creation of local capital markets depend only in part, however, on institutional arrangements; at least equally important, of course, are the general economic and financial policies adopted by the government. And in this field, too, we have often found ourselves able to be of assistance. Advice on such matters is less spectacular -- less easy to dramatize -- than assistance in the establishment of new institutions, but it is no less important. And I think I can fairly say that, through staff missions and through outside consultants employed by the Bank, we have been able to make a not insignificant contribution to the formulation of economic and financial policy in many of our less developed member countries which, in the long run, should help substantially in their further development.

The final point I want to make on the domestic measures proposed by the Experts concerns programming. Here, again, the Bank's experience supports the analysis contained in the Report about the need, first, for a coordinated approach to development problems, second, for the intelligent determination of priorities for public investment expenditures and the formulation of appropriate policies for the private sector, and, third, for permanent organizations to work out development programs, to keep them under constant review and to modify and adapt them as conditions require.

When the Bank initially undertook development financing, the loan applications filed with it all too often consisted simply of lists of projects which the member government had under consideration -- usually without any indication of the relative priority of the various projects, the relation between them, or their place in the development pattern being worked out for the economy as a whole. A good deal of the time and attention of the Bank's staff has necessarily been devoted, therefore, to helping member countries determine priorities among the different projects they had in mind

and sometimes to suggesting additional projects in fields which may have been overlooked or insufficiently emphasized.

It is a striking fact that practically every mission sent out by the Bank -- and we have had missions in almost all of our under-developed member countries -- has reported back the inadequacy of development programming efforts and has urged the creation of a high-level local development board, economic council or planning agency, of one kind or another, to rectify the situation. Development programming is a complex, inexact discipline at best -- but it is inescapably necessary if resources are not to be wasted or, at best, applied haphazardly.

The Bank has played a significant role in this field. Comprehensive survey missions organized by the Bank at the request of member governments have made recommendations, or are in the process of making recommendations, to Colombia, Cuba, Guatemala, Iraq and Turkey, designed to assist those countries in formulating long-term national development programs. We have provided help not only in the survey stage but in the even more vital implementation stage. In addition to these comprehensive missions, members of the Bank staff have assisted, on a somewhat more limited scale, in the planning of development, or in the study of the methods of programming, in a number of other countries, such as Ethiopia, Chile, Iceland, Pakistan and the Philippines. We have also joined with FAO in sponsoring a mission to survey the agricultural economy of Uruguay -- and FAO and the Bank are sending a similar mission to Chile at the end of this month. Similarly, in response to a request from Nicaragua, we are stationing two members of our staff in that country for a period of from eight months to a year to help the government in formulating an investment program, in arranging for technical experts in various specialized fields, and in coordinating and implementing the recommendations of these other experts.

In other words, to the extent that we can effectively do so, and through various devices to meet the varying desires and needs of our members, we are pushing ahead as fast as we can with assistance in the vital field of development programming.

So much for the domestic measures suggested in the Experts' Report. Let me turn now to the portions of the Report that deal with public loans for development -- and particularly with the discussion of the International Bank.

I wish I could report that we find the same sense of realism in those portions of the Report as in so much of the rest of it. Unfortunately, this is not the case. In dealing with the Bank, the Experts seem not to have realized that the very obstacles to development they high-lighted in earlier sections have been obstacles in the way of Bank development financing. We have moved in various ways, as I have already indicated, to overcome those obstacles, but in the nature of things it has not been an easy job nor one that could be accomplished over-night.

I think a single set of figures will illustrate the direction in which we have been moving, and the measure of success we have achieved. In the fiscal year ended June 30, 1948, we made two loans for development, aggregating \$16 million. In the 1949 fiscal year, we made three development loans aggregating \$109 million. In the 1950 fiscal year, we made eight development loans totalling \$134 million. And in the fiscal year now coming to a close, we have already made 18 development loans, aggregating about \$290 million. This steady progression accurately reflects, I believe, both the progress made within the Bank in achieving an understanding of the economic situation and problems of its less well developed member countries, and also the progress made by those countries, in part with the assistance of the Bank, in preparing their programs and projects to the point where they are susceptible of being financed by the Bank.

I wish it were possible for me to indicate the amount of development lending the Bank will do over the next few years. But any such prognostication on my part would have to be based on so many assumptions as to future eventualities as to make the end result pure guess work. So far as the Bank is concerned, our objective is to increase our rate of lending just as rapidly as we can, subject only to the limitation that we will not lend more than the borrowing country can absorb and effectively utilize, nor more than the country has a reasonable prospect of repaying. We do not have a top limit on the amount of development loans we are willing to make -- neither \$300 million, nor \$400 million, nor any other figure -- and, for the next few years at least, we anticipate that our ability to borrow will remain such as to place no limitation on our capacity to lend.

The plain fact is that the rate of Bank lending for development will depend primarily, not on decisions of the Bank at all, but on decisions over which the Bank has little or no control. It will depend, in the short-run at least, upon the ability and willingness of the industrialized nations to make equipment and materials available. It will depend also upon the ability and willingness of the underdeveloped countries, with such foreign technical assistance as may be made available to them, to push their development programs ahead along the lines the Experts have discussed, and particularly to prepare programs and projects ready for financing. It will depend to some extent, too, on whether the more developed countries, other than the United States, make available for lending purposes a greater part of their 18% capital subscriptions to the Bank -- for many of the less developed countries are in a position to service a greater amount of non-dollar indebtedness than of dollar indebtedness. Finally it depends upon what action may be taken by the more advanced countries on the

various proposals now under consideration for additional developmental assistance in the form of grants -- for obviously grant funds, if available, could be so used as to increase the ability of many countries, particularly some of the Asiatic countries, to service additional foreign debt.

I repeat, then, that in the nature of things, it would be unrealistic for the Bank to set any target for the amount of its development loans other than the target to lend as much money as can be productively used and as the borrowing countries can reasonably be expected to repay. I would be less than frank, however, if I did not add that, in our judgment, there seems no real likelihood that the amount of the Bank's development loans will, under presently foreseeable world conditions, approach the figure of one billion dollars annually suggested by the Experts. It is, I suggest, a disservice to raise hopes which cannot be fulfilled and which, by the very fact of their expression, may serve to obscure the real contribution which the Bank can make.

Another point in the Experts' Report on which I wish to comment is the statement that the Bank "attaches excessive importance to the foreign currency aspects of development". From the very general nature of this statement it is difficult to discover on what factual information it is based.

Actually the brief reference to the emphasis on the foreign exchange aspects of the Bank's policy and operations involves two distinct issues. One is the restriction of the utilization of Bank loans for imports of equipment and materials. The Report itself notes that the Bank has made every effort in this respect to interpret its Articles of Agreement liberally. The Fifth Annual Report of the Bank contains a concise statement of the Bank's policy on this matter. This policy, which the Bank explained at length to the Economic and Social Council at its meeting in Geneva last summer, was noted with approval by the Council. The Bank has now under active consideration loans which are very largely intended, not for direct foreign exchange costs, but for indirect foreign exchange requirements arising out of expenditures in the borrowing country itself.

The second issue involved in the Experts' comment is the transfer problem, or more specifically, the ability of borrowing countries to assume additional foreign debt obligations. The Bank is in full agreement with the Experts' statement that the primary objective of all development expenditures, whether financed by domestic capital or foreign loans or grants, is to build up the capacity of the country concerned to produce goods and services. The Bank is also aware that the expansion of production, particularly of marketable products of manufacturing, mining and agriculture, is likely on the whole to have a favorable

effect on the borrowing country's long-run balance of payments position. We would be reluctant, however, to subscribe to the easy generalization of the Experts that "if development succeeds, the transfer problem of meeting debt charges should take care of itself". An increase in internal production and consumption does not necessarily imply an increase in export availability. Moreover, the addition to the flow of goods and services available to any country as a result of increased output is inevitably associated with an increase in income and this additional income is bound to give rise to an increased demand for imports. Therefore, the Bank feels that it would be derelict in its obligations toward its member countries under its Articles of Agreement if it did not pay close attention to the transfer problem. However, the Bank has at no time looked upon the balance of payments effects of the projects which it finances in isolation; it has been concerned rather with the over-all, long-run balance of payments position of the borrowing country, taking into account all aspects of the country's development.

There are three other points which I wish to touch on briefly. The first is the encouragement given by the Experts to overseas development financing by national lending agencies in the more advanced countries. National lending agencies have performed a useful role and they have an important role to play today. But the creation of new national institutions would be of practical significance only if it resulted in an expansion of the total amount of financial assistance available for development purposes. To the extent to which new institutions would take over the functions of existing arrangements, including the lending operations of the International Bank, it would make no net addition to the credit facilities of underdeveloped countries; it would, however, create new problems of coordination and might thereby impede rather than enhance the development process.

I do not propose to enter into any prolonged discussion before this Commission of the relative advantages of national and international action in the field of development financing. I do think it worthwhile, however, to quote again in this connection from the statement of the President of the Bank to the Economic and Social Council in Santiago: "International agencies, I have no hesitation in saying, seem to me to offer potentially the most efficient avenue of approach. International action may frequently be more effective than national action in inducing the less developed nations to adopt necessary, but politically difficult domestic measures. International organizations cannot, in truth, be charged with invading national sovereignty, with economic exploitation, or with political discrimination among different countries. Finally, these agencies seem to me to provide the best -- and probably the only -- way of directing the resources of national contributors toward the same common purpose."

The more advanced countries, other than the United States, have not yet found themselves in a position to release, for use in Bank lending, any very large part of the 18% local currency portion of their capital subscriptions to the Bank. To suggest that, even though they have not yet made such releases, they should set up new national lending agencies seems to us to suggest a retreat from the concept of cooperative international action which motivated the establishment of the Bank and which, if we judge properly, has gained increasing support over the intervening years.

My final two points concern the suggestions for an International Finance Corporation and for an International Development Authority. The Bank has for some time considered that the creation of an International Finance Corporation, authorized to make loans to private enterprise without government guarantee and to make equity investments in participation with private investors, would provide a substantial stimulus to increased private investment, both foreign and domestic, and thus contribute in important measure to development. We hope, therefore, that the Commission will see fit to endorse this suggestion. As the Experts point out, this recommendation first appeared in the report of the U.S. International Development Advisory Board, headed by Nelson Rockefeller. It is, perhaps, appropriate to call to the attention of the Commission the fact that, in the Rockefeller Committee Report, the precise proposal was to establish the International Finance Corporation as an affiliate of the International Bank, in order that the Corporation might have the benefits of the management, staff and technical services of the Bank and to avoid the duplication and extra expense of creating an entirely new and separate organization.

So far as concerns the proposed International Development Authority, the Bank would say only this: We regard the development task as urgent. We believe that, in some countries, the rate of development cannot be accelerated substantially if the only external capital they receive is in the form of loans which have a reasonable prospect of repayment. If additional assistance is to be given to these countries, we believe strongly that it should be in the form of grants, rather than in the form of quasi-loans, and that the grants should preferably be administered through international channels. But the decision whether to make grants available for this purpose is one which only the more advanced countries can make in the light of their own national policies, resources and the totality of their commitments. On that point, therefore, the Bank cannot appropriately express any view.

We would suggest, however, that if the Commission should endorse the recommendation for an International Development Authority, it consider carefully the problem of coordinating the activities of such an Authority with those of the International Bank, so that both

loans and grants might be used most effectively to achieve the common development objective. To this end, we call to the attention of the Commission the proposal contained in the Rockefeller Committee Report that such coordination might best be achieved through a management contract between such an Authority and the International Bank.

In conclusion, I want to say a word about the assertion of the Experts in their Report that the International Bank "has not adequately realized that it is an agency charged by the United Nations with the duty of promoting economic development". That is an assertion made without factual demonstration. I do not hesitate to add that it is an assertion contrary to fact. All of us in the Bank regard the promotion of economic development as our primary task. To the achievement of that goal, all the energies of the Bank have been directed. To the achievement of that goal, all the energies of the Bank will continue to be directed.

R-478  
(To be considered by the  
Executive Directors at the  
Informal Discussion on  
Wednesday, July 11, 1951)

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

FROM: The Secretary

July 6, 1951

The attached staff memorandum on recent proposals for financing of development is submitted as a basis for the forthcoming Informal Discussion of the Executive Directors on Wednesday, July 11, 1951 at 10:00 a.m.

Distribution

Executive Directors and Alternates  
President  
Vice President  
Assistant to the President  
Department Heads

Sec. No. 5-234

July 5, 1951

STAFF MEMORANDUM

ON

RECENT PROPOSALS ON FINANCING OF DEVELOPMENT

A. REPORTS ON DEVELOPMENT OF UNDERDEVELOPED COUNTRIES

I. What the Reports have in common

There seems to be general agreement both in the theoretical explanation of the problems of development in poor countries and in the principles of international aid recommended to promote the economic development of these countries. During the last year three reports have dealt with the problem. They are:

- (1) The Gray Committee Report<sup>1/</sup>
- (2) The Rockefeller Report<sup>2/</sup>
- (3) The U.N. Experts Report on Development<sup>3/</sup>

In addition The Colombo Plan<sup>4/</sup> and President Truman's Message on Foreign Aid<sup>5/</sup> deal with the same problems. All these reports agree

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- <sup>1/</sup> Report to the President on Foreign Economic Policy, Washington, D.C. November 1950 - reported to the Board in Staff Paper R-393, November 29, 1950
  - <sup>2/</sup> "Partners in Progress" - report to the President by the International Development Advisory Board, March 1951.
  - <sup>3/</sup> Measures for the Economic Development of Underdeveloped Countries - report by a group of experts appointed by the Secretary-General of the United Nations, New York, May 1951. See also Report of the Economic, Employment and Development Commission, U.N., E/2006 E/CN.1/36, June 7, 1951.
  - <sup>4/</sup> The Colombo Plan - reported to the Board in Secretary's Memorandum No. 665, May 11, 1951.
  - <sup>5/</sup> The Mutual Security Program - message on Foreign Aid transmitted by the President to the Congress on May 24, 1951; and the Mutual Security Program for Fiscal Year 1952 - basic data supplied by the Executive Branch provided for the use of House Committee on Foreign Affairs and Senate Committee on Foreign Relations, Washington, D. C., Government Printing Office, June 1951.

(1) That it is the Western world's concern and interest to help in the development of underdeveloped countries. Development is a slow process, however and raising of the low standards of living is not possible in less than a decade or even perhaps a generation. To achieve this, the efforts of the underdeveloped countries themselves must be substantially increased and this is possible only if new spirit and drive are aroused in those countries. Considerably augmented international assistance might achieve such a result if it succeeds in mobilizing faith and hope in a better future in poor countries. This psychological effect cannot be achieved, however, by piecemeal, small aid programs but only by a substantial amount of assistance and a definite expectation that it will continue over a number of years. The amount of aid must be (a) large enough to make an impact on the rate of progress in underdeveloped countries sufficient to raise their hopes and galvanize their efforts, (b) within the technical absorptive capacity of the underdeveloped countries, and (c) within the capacity of advanced countries to provide without straining their economies.

(2) Grants must supplement the aid in the form of loans. Wisely-used grants will not only raise investment, they will also increase an underdeveloped country's creditworthiness and thereby increase the amount of loans which can be made. Sound grants increase the scope for sound loans. It may be noted in this connection that practically all the reports propose a clean division between grants and loans without having recourse to an intermediate instrument of "fuzzy loans" or disguised grants in the form of very long-term loans of 60 or 99 years at a very low rate of interest or long-term interest-free loans. Such a possibility is envisaged only in some proposals presented by some delegates at the Sixth Session of the Economic, Employment and Development Commission of the U.N. (p. 32 of the Report of the Economic, Employment and Development Commission, Economic and Social Council, E/2006 E/CN.1/86).

(3) Technical assistance will achieve much more if it is known that adequate funds are available for subsequent investment. A great deal is achieved even by technical assistance in the present form but combined operations of technical assistance, increased internal effort, grants and foreign loans, would make such a difference in effectiveness of the aid as to amount to a different kind of program.

(4) Private investment cannot at present supply sufficient funds to accelerate substantially the rate of development. Although there is considerable variance in the reports, there is agreement on the proposition as stated.

(5) Some sort of coordination of the various forms of assistance (technical assistance, grants, loans, etc.) should be provided.

(6) Operation through international organizations is generally recognized to be desirable.<sup>1/</sup>

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<sup>1/</sup> See also: Foreign Economic Assistance, Brookings Institute, 1951, pp. 90-91.

(7) A vastly increased internal effort in the recipient countries is needed as a basic condition for success in development. The extent of external assistance should be dependent on the extent to which the recipient countries are prepared to take the drastic and frequently unpopular measures which are necessary for the mobilization of domestic development effort.

## II. Differences between the Reports

While there is general agreement on the basic principles of external aid for the development of underdeveloped countries, there are naturally differences of emphasis between the various reports. The Gray Committee Report frankly confines itself to a discussion of what should be done without examining concretely how it should be done. The Rockefeller Report, on the other hand, puts its maximum emphasis on how aid should be provided and administered. It is the only report which contains specific recommendations as to institutions needed for better coordination and administration of U.S. and international activity in the development field.

All three reports (Gray, Rockefeller and U.N. Experts) deal at considerable length with problems which can be solved only by action of the underdeveloped countries themselves. The bulk of the U.N. Experts Report, both in terms of length and emphasis, deals with this phase of the problem.

All three reports emphasize the need for an increased flow of external assistance. The Gray Committee Report recommended \$500 million annually in grants and technical assistance. This figure was repeated by the Rockefeller Report. The U.N. Experts Report speaks of eventually attaining a flow of grant funds of \$3 billion annually from all sources.

For both international (IBRD) and U.S. (Export-Import Bank) dollar loans, the Gray and Rockefeller Reports mention a figure of \$600-800 million annually. The U.N. Experts Report mentions only that IBRD should set itself a target of lending at a rate of \$1 billion per annum within five years,

In appraising the prospects for and the effects of positive measures to encourage a greater outflow of U.S. private capital, the Rockefeller Report is much more optimistic than the Gray Report. A doubling of the 1946-49 average flow of \$1 billion is considered feasible whereas the Gray Report saw little chance that private direct investment would increase substantially. The principal explanation for the difference may be the fact that the Rockefeller Report proposed a series of measures as incentives to private foreign investment, including exemption of all new foreign investment from U.S. income tax which the Gray Report did not mention. The U.N. Experts Report does not mention a specific figure but appears to be no more optimistic than the Gray Report.

All three reports stress the urgency of providing a steady flow of resource to the underdeveloped areas. The Rockefeller Report emphasizes the expansion of raw material production which can be expected from development in the underdeveloped areas. The U.N. Experts Report emphasizes the needs of the underdeveloped countries as such to a much greater extent.

Neither the U.N. Experts Report nor the Rockefeller Report attempts to appraise to what extent the capacity of the underdeveloped countries to support economic development out of their own resources has been increased in the recent past. The Gray Report (page 60) on the other hand outlined the principal reasons why and to what extent the improved foreign exchange position of the primary producers' countries does not eliminate the need for foreign aid.

### III. Principal features of the Rockefeller and the U.N. Experts Reports.

1) The Gray Committee Report has been summarized in the Staff Paper R-393, distributed November 29, 1950. Summaries of the Rockefeller Report and the U.N. Experts Report are given herewith.

The Rockefeller Report makes the following recommendations:

(1) Establishment of a new U.S. agency, the Overseas Economic Administration, with an appropriation of \$500 million for development purposes for the next fiscal year. The Overseas Economic Administration would include all the foreign economic functions of the U.S. Government and would absorb among others ECA, the present Point IV organization of the State Department, and the Institut of Inter-American Affairs. It is apparently contemplated that if the International Development Authority (see sub. 2) is established, part of the Overseas Economic Administration grant funds would be allocated to the International Development Authority and the remainder would be used chiefly in such broad social programs as health, education, sanitation, etc. It is further proposed that the O.E.A. operate on a regional basis and through standing missions in the underdeveloped countries.

(2) Creation of a new international agency, the International Development Authority, to operate under a management contract with the International Bank. Funds are to be contributed by all participating countries in proportion to their capital subscription to the International Bank. The contribution proposed for the United States would be up to \$200 million to be transferred from the appropriation of the Overseas Economic Administration if the new Authority should begin its operations during the fiscal year 1951-52. The funds of the Authority are contemplated as grants in the field of public works.

The Report states the principle that "all programs of economic assistance should provide for some measures of cooperative local financing."

(3) Creation of an International Finance Corporation as an affiliate of the International Bank, to be financed through subscription by the participating governments to non-voting stock up to the equivalent of \$400 million. The Corporation would be authorized to make non-voting equity investment and loans to private borrowers without government guarantees. It is intended that equities and loans be sold to private investors as soon as possible, and that the proceeds be used for further operations. United States subscription of \$150 million is proposed, with one-third actually paid in, the balance subject to call.

(4) The Rockefeller Report further proposes various measures to stimulate U.S. private investment including exemption from U.S. income tax of all new foreign investment and insurance against transfer risks, the latter to be underwritten by the Export-Import Bank up to an amount of \$100 million.

Coordination. The Report lays great emphasis on the need for coordination of all development assistance and on the preparation of a comprehensive development program for every country. The preparation of these programs would be the responsibility of Joint Commissions which are to consist of representatives of the United States and of the foreign country receiving assistance.

2) The U.N. Experts Report on "Measures for the Economic Development of Underdeveloped Countries" is divided into two major sections. The first deals with domestic measures requiring action by the underdeveloped countries; the second deals with measures requiring action by the developed countries and international agencies. Recommendations of the report are much less shaded than the text and fail to convey the subtleties of the analysis.

The first part of the report (pp. 5 - 70) contains an excellent analysis of the problems of underdeveloped countries and a realistic and persuasive statement of what the underdeveloped countries must do. The second part contains an estimate of total investment and of external capital required to raise by 2% the national income per head in underdeveloped countries. For that purpose, the experts assume: (a) an annual shift of 1% of the total working population into industry requiring \$2500 per head of worker employed, and amounting to \$15 billion. This would raise the national income by 1½% per annum; (b) annual investments in agriculture of about \$4 billion - of which \$1 billion would be invested in agricultural extension services and research - thereby increasing the yield per acre by an average of 2½% per annum equivalent to an increase of 1% of national income. With national income increasing annually by 2½%, income per head, taking into account the increase of population would increase by 2% per annum.

Total investment would then amount to \$19 billion per annum, or 20% of the income of these countries. Internal savings in 1949 amounted to \$5.2 billion, so that the gap would appear to be \$14 billion. The possible increase in domestic savings could reduce this gap to \$10 billion (80% of which would be needed for Asia). To meet this gap the present annual inflow is of \$1 to \$1.5 billion. "It is in order to emphasize that, if these countries are to progress more rapidly in the future than they have done in the past or are doing at present, the inflow of capital must be multiplied several-fold, that we have thought it worthwhile to give these estimates of the order of magnitude involved. We do not ask that these figures be taken exactly. We wish only to emphasize that the order of magnitude involved is well in excess of what is now generally believed. When members of the United Nations speak about rapidly increasing the standards of living of the underdeveloped world, they should realize that what they are talking about involves a transfer of several billion dollars every year." (p. 79).

Such a magnitude is not, it is claimed, beyond the capacity of the developed countries. 2% of the national income of Western Europe, Australia,

the United States and Canada would amount to \$7 billion a year. The experts observe that in the last five years, grants and loans from the United States have been running at over 3% of her national income and that in the period 1905-1913 the United Kingdom exported capital equivalent to 7% of her national income.

Raising the inflow of capital into underdeveloped countries requires action under three headings: private investment, government lending and grants-in-aid. With respect to private investment, the experts are generally in sympathy with various suggestions designed to promote a large flow of private funds. A creation of a favorable climate for foreign investment, transfer guarantees, removal of double taxation, investment treaties and an "International Finance Corporation to make equity investments and to lend to private undertakings operating in underdeveloped countries" are cited in this connection. In general, however, the experts are not optimistic as to the immediate prospects for a greatly increased volume of private investment.

With respect to government lending, the experts commend the operations of the Export-Import Bank and recommend similar institutions to the other developed countries. The International Bank is regarded by the experts as having failed to meet the "challenge of the circumstances." A rate of lending below \$300 million a year is viewed as inadequate and the experts recommend to the Bank to set for itself a target, which should be reached within five years, of a rate of lending of not less than \$1 billion a year. "If it (the International Bank) shows no sign of approaching this target, the whole question of the proper international organization for the provision of adequate amounts of loan capital to the underdeveloped countries should be reviewed by the United Nations."

An important obstacle to lending which is beyond the Bank's power to remove, the experts go on, is the limited sum now being spent on improving social capital. Much more must be done in this field before the underdeveloped countries will be in a position to absorb large amounts of loan capital. For this purpose, it is recommended (recommendation 14): "the United Nations should establish an International Development Authority to assist the underdeveloped countries in preparing, coordinating and implementing their programs of economic development; to distribute to underdeveloped countries grants-in-aid for specific purposes; to verify the proper utilization of such grants; and to study and report on the progress of development programs." Grants increasing rapidly and reaching a level of about \$3 billion a year should be given for (a) research and education; (b) public health programs; (c) subsidization of medium- and short-term farm credit; and (d) improvement of rural public works.

3) Comment on the U.N. Experts Report. The technical aspects of the experts' estimates of total investment on foreign assistance requirements made in this report will be the subject of a separate paper to be presented shortly to the Board. The main conclusion appears to be that the annual investment requirements of \$19 billion are somewhat exaggerated even within the unrealistically ambitious framework of the experts' assumptions and that the external gap may be but one-half of the experts' estimate of \$10 billion. The following comment may be made meanwhile.

We can readily agree with the basic theses of the report, which may be summarized as follows:

- (1) That the essential aim of economic development is an increase in real income per head.
- (2) That a vast increase in investment in the underdeveloped countries is required to achieve such an increase in real income.
- (3) That even if domestic savings were increased considerably, "the transfer of capital that is required to raise rapidly the living standards of underdeveloped countries is far beyond what is currently envisaged."
- (4) That the largest requirement of international aid is for the poorest countries which at present receive the least per head.

It is also probable that if all the underdeveloped countries of the world with their 1600 million people had to achieve simultaneously a 2% increase in income per head, an annual investment of somewhat less than \$19 billion and external aid of perhaps \$5 - 6 billion might be required. It is probably not possible, however, to secure either at present or even within the next few years such an increase in real income per head. A considerable national and international effort will be required not to allow the income per head among the poorest of those countries to fall below even the present very low level, and a preparatory period of several years during which only a slight increase in income per head might be obtained will have to precede a later stage at which a 2% increase in income might become possible. It would be dangerous to raise hopes which cannot be fulfilled as yet. The orders of magnitude of international aid proposed by the report are therefore unrealistic for a number of reasons:

- (i) Progress in economic development could not start in all the underdeveloped areas simultaneously. At first, the technical absorptive capacity would be very much below the amount which would secure an overall increase in income of 2% per annum.
- (ii) National incomes and actual investments in the underdeveloped areas appear to us to be underestimated. While there is admittedly a vast margin of error in all such estimates, we would put national incomes at \$125 billion (instead of \$96.6 billion) and actual investments at \$7 billion (instead of \$5.2 billion).
- (iii) If investments in underdeveloped areas, financed both by national and external resources, were increased, a higher proportion of the increased national income could be siphoned off into domestic savings. Even if external assistance could reach a high level for some years, the need for it would later fall off gradually. It is not necessary that it should be maintained at its maximum level forever.

(iv) Even if the technical absorptive capacity were much higher than it actually is, and even if progress in development could start everywhere simultaneously, it may be doubtful whether the proposed amounts of external assistance could be obtained. To present exaggerated claims may, in practice, only compromise more reasonable claims which might be realized.

(v) We have to admit therefore that for the next decade at least it would be impossible to secure an annual increase in income of 2% in all the underdeveloped areas of the world, notably in Asia. Without a large-scale developmental action, income per head in Asia would fall because of the increase in population. The immediate task therefore is to insure that income per head in Asia should not fall and even this task will require energetic development action. It would be no mean achievement if income per head were to rise slightly, by say 0.5 to 1% per annum.

(vi) The problem of coordination between grants and loans has not been treated in the report. There is no link between the grant recommendation and the lending recommendation.

#### B. THE MUTUAL SECURITY PROGRAM

President Truman's Message on Foreign Aid transmitted to the Congress on May 24, 1951<sup>1/</sup> proposes that the total funds required under the Mutual Security Program be divided as follows:

##### Mutual Security Program 1952

(in millions)

	<u>Economic</u>	<u>Military</u>
Europe	\$ 1650	\$ 5240
Middle East and Northern Africa	125	415
Asia	375	555
Latin America	22	40
Administrative Expenses	<u>78</u>	<u>---</u>
	\$ 2250	\$ 6250

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<sup>1/</sup> See also: The Mutual Security Program for Fiscal Year 1952, Basic Data Supplied by the Executive Branch, Washington, Government Printing Office, June 1951.

Economic aid for Europe includes the economic aid for Greece and Turkey. The Middle East and Northern Africa category includes Iran, the Arab States, Israel and the three independent African countries: Liberia, Libya and Ethiopia. Asia "includes countries of the free world from Afghanistan to Korea inclusive." It includes South Asia (India, Pakistan, Afghanistan, Ceylon, Nepal); South-East Asia (Thailand, Burma, the Associated States of Indo-china and Indonesia); the Philippines; Formosa; and Korea. Japan "is not included in this program since its needs are met in other ways." For convenience, the estimated requirement for administrative expenses for the entire program (i.e., both Economic and Military) is shown as a single figure under economic aid. It is recommended in addition that the lending authority of the Export-Import Bank be increased by \$1 billion for loans for economic development purposes as well as for expansion of strategic and other essential materials.

No details of proposed allocations to single countries have as yet been released. \$1.65 billion of economic aid is earmarked for Europe. A fraction of this will help develop Europe's underdeveloped dependent overseas territories. The bulk of development aid will be provided out of the remaining \$600 million. Administrative expenses will take \$78 million of it and \$112.5 million is going to the U.N. Korean Reconstruction Agency. In addition, help to Formosa, the greater part of Indo-china's share, and the care of Arab refugees from Palestine are primarily "emergency cases" rather than "development grants." Thus on the incomplete information available to date it appears that the Gray Committee Report's recommendation of \$500 million a year in grants for development and technical assistance is to be implemented only to the extent of around \$200 million. There have been some criticisms on this count. (See: Point Nought Four, The Economist, June 2, 1951.) On the other hand President Truman's message contains a forecast of a broader program to come: "If peace could be made secure, the American people would be glad to invest a part of the resources we must now allocate to defense to a large-scale program of world-wide economic development ... With such a program, we could, in cooperation with other peoples inaugurate the most hopeful and fruitful period of peaceful development the world has ever seen."

### C. AGENDA FOR DISCUSSION

The management proposes that the discussion at the meeting of the Executive Directors on the three reports might best revolve around the following points:

- (1) Would a program of foreign grants for development purposes be a desirable supplement to the loan and technical assistance programs presently in effect? If so:
  - (a) What should be the order of magnitude of the grants?
  - (b) Should the grants be administered by national or international agencies?

(c) Would the proposed International Development Authority, operating through a management contract with the Bank, be a desirable mechanism for the administration of grants?

(2) Is there a need for an institution such as the International Finance Corporation and, if so, should the Bank be willing to operate such an institution as an affiliate?

(3) Should the Bank representatives at the forthcoming ECOSOC discussion of the Report of the United Nations Experts take any position on behalf of the Bank as an institution and, if so, what should that position be?

#### D. THE VIEWS OF MANAGEMENT

The views of the management on the points listed above may be summarized as follows:

(1) The management has already expressed the view (see statement of Mr. Black before the ECOSOC meeting at Santiago and statement of Mr. Demuth before the Economic, Employment and Development Commission in New York) that the development task is urgent and that, in some countries, the rate of development cannot be accelerated substantially if the only external capital they receive is in the form of loans which have a reasonable prospect of repayment. If additional assistance is to be given to these countries, the management believes that it should be in the form of grants rather than in the form of quasi-loans and that the grants should preferably be administered through international channels. The management recognizes, however, that the decision whether to make grants available for this purpose is one which only the more advanced countries can make in the light of their own national policies, resources and the totality of their commitments.

(2) The management has neither expressed nor formulated a view on the question of the order of magnitude of a grant program. It does believe, however that if any grant program is undertaken, it should be sizable enough to make a substantial contribution to improving standards of living and should have some assurance of continuity so that the legitimate hopes that will be aroused may not be disappointed.

(3) So far as the management can ascertain, there is no real likelihood of any decision being made in the near future that such grants as may be made available for development will be administered through international channels. Should a decision to that effect be reached, however, the management believes that the proposal for the establishment of an International Development Authority, which would act through a management contract with the International Bank, would be an appropriate and probably the most effective mechanism for administration of the grants. The members of the International Development Authority, who would presumably be government representatives, would determine the general principles under which grants are to be made, the countries which are to receive grants, and, after considering the International Bank's recommendations, the amounts which are to be allocated to different countries. In

effect, therefore, these government representatives, acting as the Authority, would make the basic political decisions. The role of the Bank would be (a) to recommend, on the basis of economic considerations, the amount of external aid which any particular country could effectively utilize and an appropriate division of such aid as between loans and grants; (b) to prepare, in consultation with the authorities of the underdeveloped countries, programs of investment involving use of local resources as well as foreign loans and grants; (c) to suggest what conditions, if any, it believes should be imposed upon the provision of external aid to any particular country; and (d) to assume full responsibility for supervising the actual administration of the grants. The management feels that, if such a role were assigned to the Bank, it would go a long way toward solving the problem of coordinating various forms of aid from different national and international sources. It should be pointed out, however, that the proper performance of such a role would require a substantial enlargement of the Bank's staff, particularly in connection with its operations in the field.

(4) The management has expressed itself as in favor of the proposal for the establishment of an International Finance Corporation to make equity investments and loans to private enterprise without governmental guarantee and believes that, if such an institution is created, it could most effectively be operated as an affiliate or subsidiary of the International Bank.

(5) The management proposes to instruct its representatives at the forthcoming ECOSOC meeting to take the same line concerning the Report of the United Nations Experts as was taken on behalf of the management before the Economic, Employment and Development Commission. If the Directors wish to adopt this position as that of the Bank, the representatives will be instructed to speak accordingly.

(6) The Economic, Employment and Development Commission has recommended to ECOSOC that it should invite the Bank "to consider and to report to the Council whether an International Finance Corporation could make significant additional contributions to economic development, over and above those that can be made by existing organizations, through assisting in the financing of productive private enterprise in underdeveloped countries, either through loans without government guarantee, through purchase of stock, or otherwise, and if so, to make recommendations with regard to the powers, functions, organization and methods of operation of such an institution." The management recommends that the Executive Directors authorize the Bank representatives to indicate to ECOSOC that, if such an invitation by the Council is extended, it would be accepted by the Bank.

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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

From: The Secretary

July 26, 1950

Attached for the information of the

Executive Directors are copies of :

- a) Statement made by Mr. J. Burke Knapp at the 385th Meeting of the Economic and Social Council at Geneva
- b) Statement made by Mr. Isador Lubin, U.S. Representative at the Economic and Social Council.

Distribution

Executive Directors and Alternates  
President  
Vice President  
Department Heads

Sec: 4-256

STATEMENT MADE BY MR. J. BURKE KNAPP, REPRESENTATIVE OF THE INTERNATIONAL BANK  
FOR RECONSTRUCTION AND DEVELOPMENT, AT THE THREE HUNDRED AND EIGHTY-FIFTH  
MEETING OF THE ECONOMIC AND SOCIAL COUNCIL

Geneva, 12 July, 1950

Mr. President and Members of the Council, it is a great privilege to participate in the discussions of the Council as a representative of the International Bank for Reconstruction and Development. It is especially a privilege to speak upon a subject such as economic development, that great, vexing, and very challenging problem which makes a genuine appeal to both the minds and the hearts of all of us.

This is a subject very close to the centre of the activity of the International Bank. It is one to which we have given a great deal of study and one in which we may claim to have some extensive practical experience. It is also a subject of very great complexity, as I believe the discussion which has preceded here has sufficiently indicated. Our successes in this field so far have been modest, but we feel that we have had successes and that the experience we have gained thus far has set our feet upon a path of greater accomplishment in this field.

We have studied carefully the two reports which are before you for consideration at the present time. These reports have been prepared by experts of impressive competence. As a result on many of the subjects of which they treat there is little to add. On some others, the thinking in the Bank has been proceeding along very largely parallel lines. On some of the policy matters I find a slight awkwardness in speaking on behalf of the Bank. The Bank is an inter-governmental co-operative agency. We are responsible to our member governments, broadly the same group as is represented at this table. On some major issues in the reports, therefore, we feel that we must look to

our member governments for guidance. However, on some of the general principles with respect to the financing of economic development, I hope to be able to reflect to you some of the judgments which have been reached in the Bank arising out of our experience in practical operations. I also hope to be able to clarify some of the questions regarding the Bank's policies and procedures which have been referred to by various delegations in the debates thus far.

I should make clear that it is not my purpose to make any formal policy declarations on behalf of the Bank. I have been authorised to come here and speak for the Bank, as I said before, to reflect our thinking on these problems and to attempt to make a constructive contribution to the debate. As for the development of our policies, we prefer rather than having paper pronouncements on policy matters to let those become evident through our actions. Our policies reflect the deliberations of a collective mind, so to speak, in the Bank's management and its Board of Directors. A collective mind, if it is active, is constantly at work and in a state of evolution. It will be my purpose to try to describe the stage of evolution reached thus far in the Bank.

May I first address myself to the question of general development programmes, general development loans, as opposed to loans for specific projects. This is a subject which seems still clouded with a great deal of misunderstanding and perhaps confusion of terms.

One concept which one might have in using the expression "general development loan" would be the extension of loans for undefined purposes, the extension of an open line of credit to be employed by the borrower at some future time for purposes and projects yet to be defined. I am quite aware that that is not what was in the minds of the experts who produced the Full Employment Report, because they say quite clearly that they would have the Bank

investigate the programme which was submitted for financing and follow its execution. However, this very broad concept of general development loans seems to have been present in some minds and I should like to say that the Bank doubts very much the wisdom of opening general lines of credit for application to undefined projects yet to be developed in the future. A general development programme is after all only an aggregate of individual projects. We have a common interest with our borrowers in formulating programmes, in advance, in terms of the concrete uses to which the money is to be put. Our common interest with the borrower is to see that the best use is made of the funds, and in order to judge that best use, we feel that we must have beforehand a reasonably concrete and specific idea of how the funds are to be employed.

I would also like to call the attention of the Council to the very serious loss of interest on borrowed money which might arise if advances were made for general purposes still undefined and a long period of time elapsed before a decision were made as to the specific uses to which those funds would be put.

If when speaking of general development loans, we mean making loans for a group of projects simultaneously, the Bank does that and indeed the Bank would like to do more of it. Our difficulty, as I shall point out at some greater length later on, is that we don't ordinarily have programmes submitted to us in a stage which permit of analysis and investigation. More commonly we are confronted with isolated projects. Actually if we awaited programmes, those projects which are ready for financing and execution would have to wait upon the development of the wider programme. Our aim in fact is to select and take the most urgent and most generally productive projects for prior treatment.

A remaining possible interpretation of the phrase "general development loans" is to cast the definition in terms of the scope of the Bank's financial contribution on a particular project; that is to say, whether the Bank should finance only the direct foreign exchange costs attributable to the project, or whether it should also extend its activities to the financing of foreign exchange impacts upon the balance of payments of the country carrying out the investment which are attributable indirectly to the investment.

I shall have occasion to refer again to this concept of "indirect impact" and I should like to define it even though the concept may be quite clear to you all and is one which is discussed especially in the Report of the Sub-Commission on Economic Development. Investment activity in a country may give rise, in addition to the direct foreign exchange costs involved in the projects, to indirect impacts upon the balance of payments, whether in the direction of increased imports or diminished exports. Imports may tend to increase because of the diversion of labour and other domestic resources in the country concerned to the project, i.e. to investment away from production for consumption. If consumption levels are to be maintained there may well be need for an increased import programme. On the other hand the same diversion of resources to the investment may cause a loss of productive activity in export industries and thereby give rise again to an indirect impact upon the balance of payments.

This problem of financing the indirect impacts upon the balance of payments is, as I shall explain, largely identical with the local currency financing problem of which we have heard a great deal in the discussions here. Local currency loans by the International Bank would not ordinarily involve the Bank's lending to a member country out of its holdings of the currency of that member country. The Bank does hold a variety of currencies, as you know, through the subscriptions by member governments of all of the member countries.

Rarely, if ever, however, would it make economic sense or would it indeed be of advantage to the member country to borrow from the Bank the Bank's holding of its own currency.

Local currency loans usually mean therefore the advance of foreign exchange to be converted into local currency to meet some part of the local currency expenditures on a project.

Now let me explain the relation of that procedure to the indirect impact upon the balance of payments. In terms of financial techniques, there are two ways in which the Bank might make a contribution in this field. Let us assume that a project is being undertaken of which the direct foreign exchange expenditure for capital equipment and supplies is being financed by the Bank. The Bank might then provide an additional loan in foreign exchange in order to cover some of the balance of payments impact on the country concerned arising indirectly as a result of the carrying out of the investment, the borrower devoting the "local currency counterpart" from the sale of that foreign exchange to meeting a portion of the local currency expenditure on the investment. As the delegate from Chile has pointed out, this is the concept embodied in the resolution which the Chilean delegation has presented and bears a family likeness at least to the ERP counterpart procedure. An alternative way of handling the problem would be to have the Bank finance some portion of the local currency expenditure on the project, acquiring this local currency with foreign exchange and leaving the borrowing country to devote that "foreign exchange counterpart" to meeting the impacts upon its balance of payments arising out of the investment. This is the alternative technique which underlies the resolution presented by the Sub-commission on Economic Development.

Both of these procedures, in an economic sense, amount to the same thing. They are simply two different financial techniques. In either case, the

essential role of the Bank would be to provide additional resources from outside to supplement the country's domestic resources in carrying out its investment programme. In real terms, one may measure this contribution by the additional goods which are imported. In financial terms, one may speak of it as supplementing domestic savings and meeting a portion of the domestic local currency expenditures on the investment project. However, the concept of supplementing local savings can become misleading; it is probably better to think in terms of the Bank's supplementing the real resources available to the country for investment and consumption purposes. The lack of savings, of which we hear so much, simply reflects too great consumption in relation to output, or perhaps it would be fairer to say, in the case of most under-developed countries, a lack of productivity and too small a margin of production over consumption needs.

Now the Bank has the power under its Charter to undertake operations of this sort "in exceptional circumstances". Why did the authors of the Charter make this provision? We believe there is clear justification for the use of that term. The borrowing capacity of any country - its capacity to service foreign debts - is limited, and eventually the total resources of the Bank are a limited quantity. So far as possible, therefore, that borrowing capacity should be reserved by member countries to cover those direct and inescapable foreign exchange costs of their development projects. We think that our member countries should attempt by all means at their disposal, to meet the internal expenditures, and to meet the indirect impacts upon their balance of payments, through their own domestic measures. They can thus avoid incurring burdensome external debts for those escapable foreign exchange costs. A consequence of reserving funds for the direct expenditures is that within the limits of a country's borrowing capacity it will be able to carry out a larger development programme.

Now these domestic measures are largely a matter of internal fiscal and monetary policies. It means using the weapons of counter-inflation with which we are all familiar in various contexts. As has frequently been pointed out in the debate, inflation is a recurrent and a chronic problem in undeveloped countries. It means appropriate tax policy; it means appropriate expenditure control in the government; it means control over credit and over investment in the private economy. It may also mean, especially in relation to the external problem, direct intervention in the balance of payments. There is a real danger of thinking of balance of payments deficits as something pre-ordained. They are very commonly a reflection of inadequate domestic economic and financial policies. No amount of foreign assistance can remedy lack of resolute action by the government at home to manage its domestic affairs. The Bank frequently has had occasion to co-operate with and advise its member countries on these broad economic and financial policies appropriate to development programmes. These problems are widely understood; what really matters is resolute action by the governments concerned to follow the lines of sound internal monetary management. In the absence of such action, and unless the situation does justify external assistance to help with the problem, the eventual resort is to inflation. I am sure that before this group it is unnecessary to elaborate the harmful effects of inflation, the misdirection of investment, the inequalities of income, the suffering and waste which inflation carries in its train.

The Bank also desires to assist its member countries to create and mobilise sources of local capital for investment purposes, and considers this task one of the major contributions which it can make to the process of economic development. The method does, of course, vary from country to country, but I would like to give you at least two recent examples from the Bank's activity which will illustrate in this very concrete way the kinds of

things which can be done to supplement the Bank's external assistance with the mobilization of internal financial resources.

The Bank made a loan recently to El Salvador for a very large hydro-electro-project which we hope will prove a major landmark in that country's economic development. The external costs amounted to about \$12 million and there was a problem of raising the equivalent of \$6 million in local currency for purposes of covering domestic expenditures on this project. We were told that there was no possibility of raising that money in El Salvador. El Salvador, like most undeveloped countries, has no organized capital market. We suggested the possibility of organising an authority to administer this hydro-electric project, and of having that authority issue bonds. For El Salvador that was unprecedented. There were almost no bonds in the country; people weren't accustomed to hold their money in that form. However, we sent to El Salvador the Director of our Marketing Division, who is concerned with the flotation of our bonds in the United States and who worked very closely over a period of some time with the local people. As a consequence, a bond issue was organised, only within the last few days it has been offered for public subscription, and it was an overwhelming success within 24 hours. El Salvador has found from its local capital market the amount required to supplement the Bank's external assistance.

Another instance which perhaps is even more interesting is a venture with which the Bank is engaged in Turkey. Turkey is a country which has had a considerable industrial development but very largely in the hands of the government. There has been no private enterprise, there has been no capital market, there have been no funds available for carrying out small and general industrial development in the country. At the same time, there has been increasing recognition of the need for promoting industrial development by private enterprise.

We were invited by the Turkish Government to try to formulate some answer to the problem of developing the Turkish capital market, and we sent a representative to Turkey for the purpose. He spent a very considerable time, (these things don't come easily) working with the private banking people, government representatives, and private business interests in Turkey. As a result of his recommendations, a Turkish Industrial Bank has now been established. The share capital in this Bank has been subscribed by a syndicate of private bankers with the hope that after the institution commences operations these shares can be passed on to the general public. This institution has been assured an advance from the Central Bank of Turkey in an amount matching the funds raised through the issuance of share capital. And finally the International Bank is prepared to provide this institution with external loans to supplement its Turkish lira resources.

The function of this body is primarily to provide capital to new enterprises or expanding enterprises in the small industrial field in Turkey. It is authorised to make loans, to assist by way of equity participation, or in some instances to engage in pilot operations on its own account. It is expected that this bank will be equipped with a technical staff able to advise Turkish entrepreneurs with respect to the technical problems of their business, including not only the industrial problems but also the financial and organisational questions. We shall watch the development of this institution with the greatest interest. It may be regarded itself as a pilot operation to show what can be done to evoke private funds both through subscriptions to the capital of the bank and subsequently through the launching of enterprises which the bank will help to finance.

Well, despite all the measures that can and should be taken to mobilize effectively internal resources (and this is a matter to which the Sub-Commission, rightly attaches very great importance) cases may arise in which it would not be economically inappropriate for the Bank to cover with foreign exchange part of the local currency costs of a project, and incidentally part of the indirect impact of that project upon the country's balance of payments. The Bank has no general policy preventing its engaging in such operations, although its inclination would be to make loans of this sort only in the following circumstances:

- a) If the country is sufficiently creditworthy to be able to undertake a foreign exchange obligation in order to finance local currency costs.
- b) If the project being financed is of such economic urgency that the country's ability to undertake foreign borrowing is better utilized in financing this project rather than in financing the direct foreign exchange costs of alternative projects.
- c) If the local currency costs of the project cannot reasonably be met out of available domestic resources and
- d) If the project demonstrably gives rise to indirect foreign exchange requirements arising from the loss of export potential or the need for increased imports of either raw material or essential consumption goods which are needed to prevent the investment from having an undue inflationary effect upon the economy.

It should also be understood that in all cases the Bank would expect the borrowing country to find out of its own resources some substantial part of the local currency funds required to meet the domestic expenditures.

I would like to call attention to the fact that this statement has been formulated in terms of financing local currency costs, and having the foreign exchange counterpart used to cover the indirect impact on the balance of payments. For a number of practical reasons we are inclined to consider that financial technique more suitable.

I should also like to make clear that this is a procedure which we could follow only under the terms of our Charter, that is to say, in exceptional circumstances. We do not feel that under our Charter, or on the basis of a reasoned analysis of the problem this is a procedure which should be resorted to regularly and generally.

This discussion, you will note, has continued to run in terms of financing specific projects. But the Bank has always taken a broad view of what is a project. We are not committed to the "monument" school of thought, that a project must loom great on the horizon and be a large single construction work. In India, for example, we helped to finance the general rehabilitation of the Indian railway system; that was a matter of providing additional rolling stock for the whole Indian system. We regarded that as a project. We have made a loan to Colombia for the purchase of agricultural machinery which is being distributed throughout the agricultural economy of Colombia. That was regarded as a project.

More important, in considering the economic justification for projects, we feel the necessity for taking a broad view of the effect of the project upon the country's economy. The report of the Sub-Commission on Economic Development has stressed that the social usefulness or productivity of a project is not to be judged merely from a commercial standpoint, and that there were non-revenue creating investments which had a direct or indirect effect on a country's

economy which should be eligible for foreign finance. The Bank agrees with this viewpoint and has had the opportunity so to express itself to the Sub-Commission. The Bank does feel that operations which are commercial in nature should clearly be carried out on commercial lines; that economic administration is essential in any project; and that the organisation which are created to carry out the projects must in the interest of the nation concerned be as efficient as possible. The Bank does not feel, however, that it should limit its financial assistance to a project or programme which by their nature are self-liquidating in the ordinary commercial sense.

Hence, we don't quite accept the categories which were set forth in the report of the Sub-Commission on Economic Development, those categories of projects which they classified according to the suitable source of international finance. They first list general industrial projects being suitable for private finance. This is no doubt correct as a general statement. Primarily one would look to private enterprise capital to carry out industrial operations. But we do not regard ourselves as precluded from participating in such activities, particularly if jointly with private enterprise. The second category in the Sub Commission's report is the so-called economic overhead projects: power, transportation, communications, agricultural development, land reclamation and irrigation and so on. At some points in the report, they seem to doubt whether these are suitable for the International Bank, although at one point they acknowledge that they are very close to the heart of our present activities. The Bank recognizes that basic resource projects like these must be assessed in terms of their long-range economic productivity, taking into account the contribution they will make to a secondary development of the economy. Within this framework, we regard ourselves as very much at

home in the field of economic overhead projects. Then we come to the social overhead projects, health, education, housing, labour training, and so on. Here again we would not like to feel excluded from the field. We can conceive of projects coming up along these lines which would be sufficiently productive to justify resort to the Bank's resources, especially if they are linked to other types of operations having a more clearly economic nature. In fact even if the Bank wholly abstained from financing social overhead projects, the conclusion need not necessarily be drawn that such projects cannot be carried out. The point is simply that if the Bank makes a sufficient contribution in the fields of categories 1 and 2 in the Sub Commission's report, the country concerned may well be able to afford to carry out with its own resources the associated programmes in category 3.

May I add a word regarding the revenue-producing character of projects. The Bank under its Charter must lend either to governments or under the guarantee of national governments. Our eventual security, therefore, on any loan is a pledge of the national credit of the borrowing country. On the other hand, we naturally do not want to set up a loan project under a government guarantee in which the primary borrower will prove insolvent and we shall have to have resort to the guarantee. Indeed the Bank has sometimes urged member governments to put projects which they have submitted to us on a self-liquidating basis, and I think that has given rise to some misconception. Let me explain why we have done this: If for example we were submitted a project for development of a country's ports - I speak purely hypothetically - and it were proposed that that port development be entrusted to a joint committee of the Ministry of Transportation, the Ministry of Finance and the Ministry of Economics, we might well express our preference for the creation of a Port Authority, our purpose being

simply to ensure the effective execution of the project. Having reached that stage, the question of finance might arise; and we might well propose that this Authority should be set up as an autonomous financial agency, deriving revenues from this port development project in the form of port fees. Now, when we make a suggestion like that, it is not because of any general preconception that projects must be self-liquidating. It is rather that, if the country concerned is a characteristic undeveloped country, it is already having a severe budgetary problem, it is seeking new sources of budgetary revenues, and here lies one ready at hand, i.e. charging port fees in accordance with the benefits derived by the users of the port - a conventional form of financing. The question, after all, is simply one of the incidence of taxation; the question is whether the beneficiaries of the project should pay for its use or whether the burden of finance - I am still speaking of internal finance - should fall upon the general budget. If the general budgetary situation permits, and if there are good reasons of a practical or social nature for not imposing the costs of the project upon the ultimate beneficiaries, the Bank does not insist upon a doctrinaire policy that the project must be directly self-liquidating in local currency.

Similarly, in judging the borrowing country's capacity to service external debt, and in assessing the contribution of the project in this direction, the Bank does not take a narrow view. In fact, it must give consideration not only to the long-term indirect effects of the project upon the country's balance of payments, but also to the more general prospects for the country's external payments position. The Sub Commission on Economic Development has pointed out that if a country's general balance of payments position is well assured, it might not be necessary to require

that a project contribute, even indirectly, to the improvement of the external payments position. Unfortunately, the converse is also true. If a country's balance of payments prospects are very poor, the Bank might not be able to entertain a loan application even if the particular project concerned would demonstrably produce exports sufficient to meet the service on the loan. The question which the Bank must always consider is whether the service on its loans, together with other debt service requirements, would put an undue burden upon the prospective total exchange availabilities of the country concerned.

The explicit requirement that the Bank must lend either to member governments or on their guarantee has facilitated our efforts to assure consideration of priorities among different projects, and of the co-ordination among such projects. It should be kept in mind that although a great number of projects in a given country might seem sound enough in terms of their yield in local currency, they may in the aggregate exceed the country's capacity to finance investment, whether from its domestic resources or from the amount of external borrowing which it can reasonably undertake. Hence it is imperative to establish priorities - to commence with the most economically productive projects, measuring productivity in the broad terms which I have mentioned before.

A problem which is technically even more difficult is to develop a pattern of interdependence among the investment projects so that what is carried on in one direction is matched by those necessary complementary investments which alone can ensure the economic effectiveness of the whole. An obvious example is that there is no use in bringing new land under cultivation through an irrigation system unless at the same time transportation facilities are provided to bring the crops to market; or there is no

use in providing power resources for an area without some assurance that there will be an adequate development of agricultural or industrial activity in the area.

All this means that what is needed is an integrated investment programme and (I come now to the final and most difficult stage of all) a programme timed over a space of years in accordance with the available resources. Such a programme must be carried out by stages, whether because of physical or financial limitations. An early start on the most productive projects means building up a national income, a taxable capacity, a balance of payments position, which will sustain further development activity. But to start the programme off on the right foot, it is critically important to have at least a general sense of what the general development programme is to be.

Now this task of developing integrated development programmes is an extremely challenging one. The Bank seeks to provide every assistance along this line, and it is a part of our daily life to do so. To take the simplest case, when we receive a loan application our first thought is to get out into the field and see the problem on the spot, talk to the people there, find out just what stage their thinking has reached. When we do that, one of our first questions is: What stage have you reached in your general thinking as to the lines of economic development along which you wish to proceed? How does this particular project fit into your general programme? We frequently find that not sufficient attention has been given to that problem, and further assistance is requested. We have sent a number of special missions with a few people for a short period of time, just to start the work along these lines within the government departments or agencies in the member country concerned and to stimulate that kind of thinking and

the production of that kind of intelligence and information. Or on occasion we have undertaken major technical assistance missions to member countries for working out development programmes. Our principal effort to date in that field has been a mission to Colombia, which was organised something over a year ago, under the chairmanship of Dr. Lauchlin Currie, a well known economist in the United States. This mission included about twelve or fourteen economists and specialized experts in different fields and of different nationalities. This group spent about six months in Colombia, and when they returned, they spent another six months writing their report. As a matter of fact, they found two or three return visits to Colombia were necessary to fill in gaps which they had failed to cover during their first visit. This effort has been experimental, but we hope it will prove very useful. We expect the report to be published, and when it is, I do commend it to the attention of the members of this group as the kind of effort that we think must be made in a country to assess its total resources position and to develop a logical, integrated, and productive investment programme. The expanded technical assistance programme through the United Nations should provide a substantial impulse for this kind of work, and we expect a great deal from it. But all of this external advice and assistance will be wasted unless the member countries themselves have an effective organization to receive the information, absorb the advice, and to implement it and carry it out. What is needed is a vigorous national organization entrusted to responsible, unified, and objective hands. Too often we have found this element lacking. Through the efforts of the countries themselves, through co-operation and assistance from the International Bank, and through other sources such as the Technical Assistance Programme, we hope to see a greatly improved presentation of

programmes and of projects. There is no doubt that the single greatest obstacle to the Bank's advance at the present time is the inadequate character of the preparatory work in our member countries. The solution to this problem will require, in our judgment, long and arduous work by us all.

Now, these views which I have been expressing, the substance of which is to try to give an impression that we do take a broad view of development programmes, is, I urge upon you, nothing new in the Bank. We are accustomed to taking a broad view. And I cannot refrain from commenting that we are also accustomed to borrowers expressing surprise when we evidence interest in things other than the particular project which is submitted for review. We have had borrowers who felt that we were most unduly inquisitive about their general economic problems, and about their general economic position and policies. But I do feel that within this group there has been indicated strong support for the view that one must consider economic development in the broad, and that in judging any particular operation one must see it in its general context.

Now, at the same time, we know we cannot be perfectionists in this field. We are not demanding five-year blue-prints for the economic development of an undeveloped country which is just beginning to make progress on carrying out its ideas. Had we held such views we should never have made a loan to date. Our philosophy is to be practical and pragmatic, to move forward, but not too quickly, not so fast that we shall make wasteful expenditures of funds; and when I say we, I mean that we want to protect our borrowers from making wasteful expenditures of their resources in the absence of a reasonably clear concept as to the nature of their economic development programme.

May I turn now to another subject, which is the question of the currencies in which the Bank loans are made. The Bank is now increasingly

encountering the problem of raising adequate non-dollar currencies for its lending purposes. The generally increased supply of goods in Western Europe and, since devaluation, the general tendency for Western European goods to be more competitive in world markets, means that economic development in the undeveloped areas should be able to absorb a greatly increased flow of goods from sources other than the United States. Now this flow can be financed, at least in some part, in dollars; in fact about a quarter of the Bank's dollar loans thus far have actually been spent outside the United States. This has the advantage of enabling the supplying countries, the Western European countries who are selling goods against dollars supplied by the Bank, to find an additional source of dollar earning power. But it also has the disadvantage of imposing a dollar obligation on the borrowing country to finance its procurement requirements in soft currency areas. We have noted a distinct tendency by borrowers to seek soft currency finance, through the Bank or otherwise, for such procurement, and to reserve their borrowing capacity in dollars for purchases in the United States. Such tying of the Bank's dollar loans, in other words, to purchases in the United States has been much more a reflection of the attitude of borrowers than of that of the Bank. I think it is unnecessary for me to say to this company, that the Bank does not make tied dollar loans and that it is forbidden by its Charter to do so.

Also, as long as currencies are inconvertible, a real problem arises in assessing the credit-worthiness of a borrowing country. Countries may well have exhausted their credit-worthiness in dollars for dollar loans, and yet have soft currency earnings which would clearly establish their credit-worthiness for advances in soft currencies to meet purchases in soft currency areas.

The Bank's supply of lendable soft currencies, is obtained from capital subscriptions by the various member governments, or through funds borrowed in the financial markets of those countries. But both operations require the consent, under our Charter, of the country concerned, and these consents have been given, thus far, rather hesitantly, because countries fear that their balance of payments position will not permit them to undertake the unrequited exports which are involved in exporting against payment in currencies provided by them through the Bank.

Some progress has been made recently, however, in obtaining such consents at least in principle, subject to consultation between the Bank and the member country when specific needs arise. While the balance of payments position of most Western European countries is admittedly difficult, relatively moderate amounts of their currencies would be a great help to the Bank and to its borrowing members. It should also be noted that even if such countries may still have overall balance of payments deficits, they may be able (indeed, some have shown that they are able) to maintain substantial capital exports in the direction of undeveloped areas.

The Bank believes that it has a real role to play, as risk-taker in such capital flows, and is very desirous of expanding the international scope of its operations along the lines which were envisaged for it at Bretton Woods. Furthermore, as a result of the circumstances I have just described, additional progress by the Bank in obtaining access to adequate supplies of non-dollar currencies may be of great importance in establishing the general magnitude of the Bank's lending operations.

Finally, a few words with respect to assuring the continuity of international investment and the proposals of the Committee of Experts on that subject. The Bank's Articles of Agreement prescribe that it should endeavour to "promote the long-run balanced growth of international trade

and the maintenance of equilibrium in the balance of payments" and should "conduct its operations with due regard to the effect of international investment on business conditions in the territories of its members." Both by its Charter, therefore, and from its experience, the Bank is sympathetic with the objectives sought by the experts. Avoiding large fluctuations in international investment is clearly in the interest of both capital exporting and capital importing countries. In fact, the idea of continuity is at the basis of the Bank's conceptions. The loans granted by us during the first years are considered as the first step in a relationship with its member countries which will grow with the years, as their capacity to absorb foreign assistance grows, as their internal productivity develops, and as their prospects for attaining international equilibrium improve. The flexible nature of the Bank's resources gives it the means, within limits, to substitute for private investment when this is lacking. In fact, this is really what we have been doing recently in the face of a U.S. capital market which has not been ready to absorb significant amounts of foreign bond issues.

Continuity, however, is not necessarily synonymous with stability or rigidity. The foreign needs of the capital importing countries vary from period to period according to their own trends of development and their capacity to undertake new investments, according to their progressive adaptation to new market conditions, and according to the variations in the prices of their main export products, which may make for improvement or deterioration in their balance of payments position and for changes in the overall resources currently available to them. Indeed, if loans had to be extended in pre-determined amounts during given periods of time, it would be inevitable, until, perhaps, such time as there could be built

up a backlog of suitable investment opportunities, which we certainly do not have today, that the lending agency charged with carrying out this fixed programme of development would be compelled to extend credit without adequate appraisal of the productivity of the investments, or of the capacity of the recipients to make repayment. The volume of capital flow is, of course, important, but it contributes to development only if the capital is productively used. The implication exists in the report that the increase in the capacity to repay will somehow be proportionate to the increase in the amount of investments. At least, the problem of repayment was given very little attention. This would not be the case if the new investments tended to support or consolidate a pattern of production based upon an existing international disequilibrium. In the long-run, it is not enough that, in the aggregate, the real income of the recipient countries should be increased, if their external position has become more and more precarious and if the existing international maladjustments have been perpetuated. It is necessary to direct investment toward new patterns of production, which in the aggregate will moderate the strains upon the international balance of payments. If international investments are to be of real service, they should serve to bring about structural changes in production which will improve both internal productivity and external balance.

For the rest, the report of the experts is concerned very largely with actions and commitments to be undertaken by its Member Governments, both in the national and the international field. These actions imply major policy decisions on the part of the various countries and the Bank accordingly feels that many of the recommendations cannot properly be discussed by it.

Furthermore, the Bank does not feel that it has been limited in the expansion of developmental loans by the inadequacy of its resources.

It has ample uncommitted cash on hand and its recent borrowing operations have shown that it will probably encounter no difficulty in raising more funds when the need arises. Hence the Bank's reluctance, at the present stage, to discuss some of the specific proposals made by the experts regarding the organization of the Bank's work, arises not only because it feels it should defer to the Governments of the Bank's member countries, but also because the means of financing which it has at its disposal and which it can reasonably expect to mobilize appear at present adequate for its purposes.

Such, in brief, are the considerations which the Bank keeps in mind in conducting its operations. In short, it can be said that we seek to lend on projects which will make the most effective contribution to the development pattern or programme of the borrowing country. We believe the policies outlined above are sufficiently flexible to impose no real limitation on our activity. The limitations have arisen from different sources. I have already made mention of the fact that the number of concrete and adequately prepared loan proposals has not been what we would have hoped, and also of our hope that the technical assistance activities, to which the Bank hopes to make its contribution will help to remove this obstacle. Reference should also be made to the borrowing capacity of the Bank's member countries as a limiting factor. Foreign indebtedness involves service charges for a period of years and the amount of such service which the prospective balance of payments of any country can bear is limited. This is all the more true when dollar indebtedness is concerned, and this is one of the reasons why the Bank is so anxious that the development programmes or patterns which it assists in financing should contribute to improving within a reasonable period the external payments position of its borrowing countries.

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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

July 6, 1950

FROM: The Secretary

Attached for the information of the Executive Directors is a draft brief proposed to be used by the Bank's representative during the discussion by the Economic and Social Council of the problem of financing economic development, which is scheduled to begin July 10. That portion of the report of the Experts on "National and International Measures for Full Employment" relating to the Bank will be considered in connection with this discussion.

It is intended that the Bank's representative will be given discretion whether or not to make the attached statement; he will, of course, be authorized to adapt it to the trend of the previous discussion.

It would be appreciated that, if any Executive Director wishes to comment on the attached statement, he would do so in writing to the Secretary on or before Monday, July 10.

Distribution

Executive Directors and Alternates  
President  
Vice President  
Department Heads

July 5, 1950

DRAFT STATEMENT

Of the Bank's Representative at the ECOSOC MEETING  
on the "Experts' Report to the United Nations  
on National and International Measures for  
Full Employment"

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1. The International Bank has taken note of the report of the group of experts appointed by the Secretary General of the United Nations to consider the problem of "national and international measures for full employment", as well as of the report of the Economic and Employment Commission dealing with the experts' proposals. The interest which the International Bank has in these matters has been strengthened in the course of its activities, and it has indeed been spelled out in the definition of its purposes as stated in its Articles of Agreement. They prescribe that this institution shall endeavor to "promote the long-run balanced growth of international trade and the maintenance of equilibrium in balances of payments" and shall "conduct its operations with due regard to the effect of international investment on business conditions in the territories of its members." Both by its Charter and from its experience, the Bank is, therefore, in ...

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agreement with the basic aims and purposes of the experts' report.

2. The International Bank cannot speak for its member countries. The report of the experts is concerned very largely with actions and commitments to be undertaken by its member governments both in the national and the international field. These actions imply major policy decisions on the part of the various countries and the Bank accordingly feels that many of the recommendations cannot properly be discussed by it. The comments which the International Bank can offer at this stage refer, therefore, mainly to the general and practical problems of international investment and economic development raised by the report of the experts.

A. - Importance  
of Continuous  
Flow of Capital:

3. In the first place, the International Bank wishes to register its approval of the idea expressed by the experts that the movement of international investment should have as continuous a character as possible. Avoiding large fluctuations in these movements is clearly to the interest of both capital exporting and capital importing countries. In fact, the idea of continuity is the basis of the Bank's operations. The loans granted by this institution during the first years are not considered the one and only contribution which the Bank can make to the economies

of its member countries, but rather as the first step in a relationship which will grow with the years, as their needs for foreign assistance grow and as their internal productivity develops as well as their chances to attain international equilibrium. The very flexibility of its lending capacity gives the Bank the means to substitute for private investment when this is lacking. And this is really what it has done until now in the face of a U.S. capital market which was not ready to absorb large amounts of foreign bond issues.

4. Continuity should, therefore, be defined in the aggregate, as is done by the experts. Continuity is made easier by the possibility of substituting one type of investment for another. But continuity is not necessarily synonymous with stability. The foreign needs of the capital importing countries vary from period to period according to their own trends of development and their capacity to undertake new investments, according to their progressive adaptation to new market conditions, according to the variations in the prices of their main export products which may make for improvement or deterioration in their balance of payments and for increase or decrease of the overall resources currently available to them.

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B. - (a) Programs vs. Projects  
 (b) Flexibility of Bank policies re Projects and Local Currencies:

5. In the second place, while the report of the experts gives due weight to the effects of capital imports on output, national income, and export capacity, it is perhaps more concerned with the quantitative aspects of investments than their quality and direction. The volume of capital outflow is, of course, important, but it contributes to development only if the capital is productively used. The implication exists in the report that the increase in the capacity to repay will be proportionate to the increase in the amount of investments. This would not be the case if new investments tended to support or consolidate a pattern of production which allows an existing external disequilibrium to continue. In the long-run, it is not enough that, in the aggregate, the real income of the recipient countries should have increased, if their external position has become more and more precarious and if existing maladjustments have been perpetuated. It is necessary to direct investment toward new patterns of production which in the aggregate contribute to moderate the strains upon the international balance of payments. If international investments are to be of real service, they should serve as a lever to bring about structural changes in production which will improve both internal productivity and external balance.

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6. The Bank lends with the guarantee of the government of the country in whose territory the project is located. This is not only for the purpose of avoiding difficulties in a field where foreign exchange transactions are involved, it is even more because the main purpose of the Bank loans is to serve the whole economy of the borrowing country. The backing of the authorities who control the pattern of development of a given area and are required to pledge their credit is considered essential to ensure that the investments financed are in effect the ones which will be the most beneficial to that area, either through their effect on the balance of payments or on the general economy. It should be recognized, however that this could tend to act as a limiting factor on the Bank's effectiveness, if the investments to which the guarantee is granted should not happen to be the most generally beneficial.

7. The mere fact that one investment is financed with external assistance means that other investments become possible. This is a second reason why the Bank is interested not only in the investments financed directly by it, but also in those which will be undertaken concurrently, i.e. in the development pattern of a member country. Determining this is usually not an unduly arduous task, at least as far as public investment is concerned, since a program can be established or forecast. Several governments have asked for the International Bank's assistance in the establishment of such programs.

Their aim has been to determine the direction

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which development - public and private - would most profitably take and the pace at which investment can reasonably proceed. If such comprehensive programs can be established, and adopted or adapted by the governments, this would be of great assistance to the Bank in assessing the relative urgency and usefulness of the investments included in these programs.

8. The fact that the Bank's developmental financing concentrates on specific projects has sometimes given rise to some misapprehensions. The specific projects involved are those investments which have been singled out in agreement between the government of the countries concerned and the International Bank as representing, within the framework of a given pattern or program of development, the most urgently needed and the most generally productive investments. This method of operation has proved useful inasmuch as it avoids the dissipation of funds and undue delays in the realization of the selected projects. It does not seem to the Bank that this method has acted as a handicap on its lending operations. The Bank indeed expects a growing number of acceptable applications to be submitted to it as a result of the efforts now being devised by the United Nations, the Specialized Agencies, and the U.S.A. in the field of technical assistance.

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9. The Report of the Sub Commission on Economic Development has stressed that the social usefulness of a project was not to be judged merely from a commercial standpoint, and that there were non-income bearing investments which had a direct or indirect effect on a country's economy which should be eligible for foreign financing. The Bank agrees with this viewpoint and has had opportunity so to express itself to the Sub Commission. The Bank feels that commercial operations should clearly be carried on on commercial lines, that economy is essential in any project, and that the organizations which are called upon to carry out a project, must in the interest of the nation concerned, be as efficient as possible, but it does not feel that it should limit its financial assistance to projects or programs which by their nature are "self liquidating".

10. Finally, the Experts' Report on Full Employment has stressed the fact that the effect of additional investment on the balance of payments is not necessarily limited to the immediate imports required by such investment, but may imply an indirect impact on the general import needs of a country. This consideration has been taken into account in the Articles of Agreement of the International Bank. The Bank does not have a policy which prevents it from making available foreign

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exchange to cover part of the local currency costs of a project when a loan of this kind is economically appropriate. In general, its policy may be summarized as saying that so-called "local currency loans" of this sort will be made only : (a) if the country is sufficiently creditworthy to be able to undertake a foreign exchange obligation in order to finance costs in local currency, (b) if the project being financed is of such economic urgency that the country's ability to undertake foreign borrowing - which is more or less limited in all cases - is better utilized in financing this project rather than in financing the direct foreign exchange costs of alternative projects, (c) if the local currency costs of the project cannot reasonably be met out of available domestic resources, and (d) if the project demonstrably gives rise to indirect foreign exchange requirements arising from the loss of export potential or the need for increased imports of either raw material or essential consumption goods to prevent the investment from having an inflationary effect on the economy.

11. It is appropriate to point out, however, that the Bank feels that in any project the contribution to be expected from the local economy should be as large as is compatible with the country's resources. It is, therefore, endeavoring to assist the underdeveloped

countries to mobilize local capital for investment purposes and considers this task as one of the major contributions it can make to the cause of development. The method does, of course, vary from country to country, but a recent example may tend to illustrate the type of operations where the Bank can be of assistance : a new industrial development Bank, capitalized both by government and private funds, has, during the last weeks, been created in Turkey ; this institution was established with the help of a consultant employed by the International Bank in response to a request by the Turkish government and Turkish private interests for assistance in encouraging both domestic and foreign direct investment. The IBRD has agreed to negotiate foreign currency loans to the Industrial Bank.

C. - Financial Means and Credit-worthiness:

12. In the third place, the Bank does not feel that it has been limited in the expansion of developmental loans by the inadequacy of its dollar resources. It has ample uncommitted cash on hand and its recent borrowing operations have shown that it would probably encounter no difficulty in raising more funds when the need arises. The Bank, therefore, does not consider it appropriate to discuss at the present stage some of the proposals of the Experts' Report which concern its organizational set up and which attempt to

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give the Bank access to government funds. This is not only because such recommendations imply in effect decisions to be made by the governments of the Bank's member countries, but it is also because the means of financing which it has at its disposal and which it can reasonably expect to mobilize appear at present adequate.

Conclusion: 13. Such are, in brief, the considerations which the Bank keeps in mind in its operations. In short, it can be said that the Bank lends to countries for the projects which make the best contribution to the development pattern or program of the borrowing country. The policies outlined above are flexible enough to constitute no real limitation on its activity. The limitations have arisen from different sources. A mention has already been made of the fact that the number of concrete projects in an advanced stage of preparation has not been as great as anticipated, and to the hope that the Bank entertains that technical assistance will remove this obstacle. Reference should also be made to the fact that the borrowing capacity of its member countries may act as a limiting factor. Foreign indebtedness implies service charges for a period of years and the amount of such service which the prospective balance of payments of any country can bear, can only vary slowly. This is all the more true when dollar indebt-

edness is concerned, and this is one of the reasons why the Bank is anxious that the development programs or patterns which it assists in financing should contribute to improving within a reasonable period the external equilibrium of its borrowing countries. This is also one of the reasons why the Bank is anxious to develop its lending operations in currencies other than dollars. Fair progress has been made over the recent months in this field, as several member countries have allowed the Bank to use for its lending operations all or part of their 18% capital subscription expressed in their own currency. As more and more supplies can be obtained from non-dollar areas, especially from Western Europe, it should be expected that, as foreign financing of investment develops, it can steadily take on a more international character.

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Statement made by Mr. Isadore Lubin, U.S. Representative at E.C.O.S.O.C. on financing economic development in ECOSOC plenary today.

"Mr. President:

"In listening to the delegates who have so far spoken, I have been impressed by the large measure of consensus which has been reached in the Council on the subject of financing economic development. This is an important fact since it shows that we can, by frank discussion and careful analysis, develop a common understanding of our problems and thus lay a solid foundation for action. How far we have advanced in this respect is also shown by the report of the fourth mission of the subcommission on economic development which is before us. The work of this subcommission is, in a way, a barometer of the ups and downs which we have experienced in our efforts to reconcile differences in points-of-view and to arrive at workable concepts. The report of the subcommission is an able analysis, in which the main elements of the problem of financing economic development are presented with clarity and in a perspective of commendable realism.

"I might describe what we have so far achieved by saying that the Council has elucidated the basic elements of the problem and the essential nature of the process.

"Those who may have thought of economic development as something that could be injected into an area from the outside by a financial or technical hypodermic process, have, I believe, been brought to a full realization that the process requires primarily internal effort and organization. In the forefront of this domestic effort is the need for improving internal banking and credit organization, stimulating local savings and channeling them to productive investment.

"On the other hand, those who may have thought that underdeveloped areas need merely to tug firmly at their own bootstraps in order to lift themselves into higher levels of economic activity, are now, I am sure, convinced that capital from foreign sources can play a vital part in achieving this result.

"We all recognize that the underdeveloped countries need foreign capital -- both private and public -- to facilitate and accelerate their developmental process, and that it is desirable and necessary to expand the international flow of capital for this purpose.

"I think that we are pretty generally agreed now that private capital is of particular importance in furthering economic development since it carries with it technical know-how and a capacity for speedy action.

"Our concensus

"Our consensus on the need for assuring investors of fair and equitable treatment and of the generally accepted principle that foreign investment should not be used as a basis for interference in the domestic affairs of a recipient country or the wasteful exploitation of its material resources is an important landmark in international economic understanding.

"Equally important is our recognition of the need and importance of public and government lending operations -- particularly because of their catalytic effects upon private investments -- whether carried on by national or international financial organizations.

"In agreeing on these general points, we also accept the implications that both the more and the less advanced countries of the world have a common interest in promoting production and economic growth.

"These propositions may seem simple to us now, but all of us who have taken part in the debates of the commissions and of the Council know how much time and labor it took to hammer them out. We may thus register with some satisfaction the work done and the results achieved.

"In moving forward from here toward practical achievement in economic development, there is another point of agreement which provides us with a sound basis for action. This is our common support of the Technical Assistance Program through which we can achieve the second lap of progress toward our goal.

"In the expanded program of technical assistance it should be possible to cooperate in developing those local measures necessary to capital accumulation in underdeveloped areas and to channeling savings into productive enterprises.

"One of the major tasks before the Council is to try to analyze the conditions and factors which may affect the pace and scope of economic development in the near future. These are questions for further examination and analysis by the Secretariat and by special groups of experts. I should like, however, to illustrate the nature of the problem by brief reference to two themes which run like a thread through the pages of the report of the subcommission on economic development and which, in my opinion, go to the heart of the problem.

"One of these themes is related to the rate at which different countries may and can develop their resources in an efficient and rational way. While not explicitly, at least by implication, it might appear that some members of the subcommission on economic development as well as others have assumed that the rate of economic growth can be fixed almost at will and that the only limitation on such growth is the amount of foreign capital a country

can obtain.

can obtain. There even appears to be the further assumption on the part of some few that development can take place almost overnight. Such views are an understandable expression of the justifiable impatience of the less developed countries with the present low standards of living of their people. We know, however, that great speed, even if it were always possible, is not always compatible with the best use of resources and with lasting improvement.

"It is at this point that the real significance of the Technical Assistance Program becomes especially apparent. Technical assistance programs will provide a means for helping countries to assess their resources and possibilities, and to prepare programs and projects for development and for international financing.

"That foundation laying process is not an easy one. The output of a dam for power and irrigation cannot be estimated without adequate water data; its site cannot be located without topographic maps; its economic justification cannot be ascertained without related economic and resource surveys. The determination of its size and shape and location require meticulous work. Knowledge of these are necessary to its financing.

"The question of the rate of development is of special interest in view of the second theme that runs through the report of the subcommission. I refer to the widely current idea that economic development should be consistent with social betterment and with a simultaneous rise in standards of living. This idea represents a new and vital departure in the social thinking of the world. As I read history, I find that economic development in its earlier stages has been in most countries a rather painful process. We all know the deprivations and economic development in its earlier stages has been in most countries a rather painful process. We all know the deprivation and suffering of the mass of the people who were drawn in the mines, factories and workshops in the early days of industrialization and of the degrading social conditions under which the workers had to live.

"It is inspiring to think that we have reached a point in history when newly developing countries want to avoid the painful social implications of industrialization and to provide their people with both machines and butter at the same time.

"May I emphasize, Mr. Chairman, that the interest of my government in the economic development of other countries represents its concern with the general improvement of economic and social conditions everywhere. Such improvement, we believe, is the only sound basis for the attainment of desirable economic, financial and social policies, which are basic to maintaining conditions under which free governments can survive, unrest decreased and war banished.

My Government

My government has had a tangible interest in economic development and its willingness to cooperate with other countries in advancing their economic programs and policies is, I believe, sufficiently well-known as not to require comment. It would perhaps not be inappropriate, however, to summarize here very briefly a few of the facts about the assistance which the United States has given through loans and credits for economic development in the underdeveloped countries, and to indicate what the prospects may be in the future.

"I wish to make it quite clear that the interest of the United States in the economic development of other countries is not a matter of exhortation or persuasion, but of performance. Our interest has been shown in the past by the large amount which has been invested directly and indirectly by the government and by the private investors of the United States in the economic development of the underdeveloped countries. This investment has taken place in three ways:

(1) Direct loans and credits by agencies of the United States, (2) the loan of funds supplied by the United States Government and investors through the International Bank, and (3) loans and direct investments made by American nationals.

"Since July 1, 1945, the Export-Import Bank has extended credits for economic development amounting to about nine hundred million dollars. About two-thirds of this amount went for development loans to Latin American and Asiatic countries. These were loans for every significant development projects, such as electric power and transmission facilities, agricultural development, production of metals and minerals and some other development work. These amounts do not include certain reconstruction loans and loans for the purchase of raw materials extended to various of these countries.

"Shortly after the inauguration of the International Bank, the Government of the United States agreed to permit the bank to loan the entire amount of the United States subscription. A few other countries have permitted the bank to utilize their contribution to its capital. The use in the latter instances has been limited to certain special conditions, while the United States contribution can be used without any restrictions placed upon it by the United States Government itself. Steps have also been taken to amend the banking and securities laws of the United States to facilitate the sale of the bank's securities. Of the bank's outstanding loans of eight hundred sixteen million dollars, three hundred thirty-two million represent loans to underdeveloped nations, virtually all of which were made in the last two years.

"The United States Government has wholeheartedly supported this trend in the bank's affairs and believes that the resources of the bank should be used for making as many loans for development projects as can be economically and efficiently used.

efficiently used.

"I submit that with the present large amount of the bank's unused lending capacity, it is premature at this time to discuss its enlargement. In this same connection, may I refer to the recommendation made by the experts in their full employment report to the effect that the activities of the bank be enlarged. It is my opinion that the scope and manner of increasing international capital resources available for development should be determined only after we have had further experience with the actual financing of developmental loans. If it appears at some future time, as a result of a large increase in the number of development projects the resources of the bank are inadequate, consideration can be given to increasing its lending capacity.

"It is natural that the United States, with an economy based on private enterprise, should attribute great importance to the loans and investments made by its private citizens which it believes represents the most desirable form of international investment. It is not necessary to repeat here what the representative of the United States has said in the past at the meetings of this Council about the proper climate and conditions of investment which are essential to attract the savings of private individuals and investments by corporations.

"Obviously, it is hazardous to predict what the rate of out-flow of private capital will be in the future. The expanded flow of private investment, as has been so well recognized by the subcommission, depends upon the development of a climate favorable to such investment. Investment and related types of treaties can contribute to the creation of such a climate.

"Recognizing what has already been done, there is still the question of what the possibilities may be for the future. The Export-Import Bank has a total lending authority of three and one-half billion dollars. Of this amount, over two and one-half billion dollars is represented by loans, or commitments of which more than a third are to underdeveloped countries. As these loans are repaid, the bank has automatic additional lending power available to it. At the present moment its uncommitted lending authority is in excess of eight hundred million dollars. This sum is available, among other things, for suitable projects presented to the Export-Import Bank by underdeveloped countries.

"National and international governmental lending institutions are far from having utilized their lending capacity to the full. The International Bank has borrowed on the American market the amounts which it expected it could lend within a reasonably short period and it can continue

to borrow

to borrow on quite favorable terms, the amounts which can reasonably be expected to be required for lending purposes for some years to come. Thus, no one can seriously expect that the bank will have any difficulty in borrowing funds in the American market until it exceeds the amount of the United States capital subscription to its stock. In practice this means that the bank is in a position to borrow at least two and one quarter billion dollars more. Moreover, it is encouraging to see that other countries have given the bank permission to utilize their capital subscription and the bank has been able to make a start in selling its securities in several countries outside the dollar area.

"In short it does not seem that the bank's loans are at this time limited by the amounts of its capital or by the amount which it has been able to borrow from private investors.

"In conclusion, Mr. President, may I repeat what I said at the beginning: It appears to me that we have made considerable progress in reaching a common understanding (if) I shall take the occasion to discuss various other aspects of the report of the subcommission as well as of the report of the group of experts on full employment.

"I am confident that through our further consideration of this subject and through continued international cooperation the progress of economic development throughout the world will be accelerated."

(if) Apparent omission. Repetition has been requested.