

UNITED NATIONS
ECONOMIC AND
SOCIAL COUNCIL
OFFICIAL RECORDS



FIFTH YEAR, TENTH SESSION

353rd MEETING

THURSDAY, 16 FEBRUARY 1950, AT 3 P.M.

LAKE SUCCESS, NEW YORK

President: Mr. Hernán SANTA CRUZ (Chile).

Fourth annual report of the International Bank for Reconstruction and Development (E/1557, E/1557/Add.1, E/1557/Add.2 and E/1557/Add.3)

At the invitation of the President, Mr. Black, President of the International Bank for Reconstruction and Development, took his place at the Council table.

1. Mr. BLACK (President of the International Bank for Reconstruction and Development) expressed his pleasure at being able to participate in the Economic and Social Council's discussion on the Bank's fourth annual report. The discussion would, on the one hand, give the Board the benefit of the views expressed on the way the Bank's business was conducted and, on the other, would provide it with an opportunity to explain certain problems connected with the Bank's operation.

2. The activities of the Bank were set forth in detail in its fourth annual report (E/1557) and the supplement (E/1557/Add.3) to it, which had been circulated to the members of the Economic and Social Council. Those documents showed what the Bank had done and was doing — that at the existing time, for instance, it was actively negotiating with no less than twenty-three of its members. He would not, however, repeat what was contained in the documents but would endeavour to outline a few of the essential features underlying the Bank's policy, particularly in the field of economic development, which might provide a useful basis for the Council's discussions.

3. He would begin by explaining the scope of the Bank's lending activities. During the three and a half years of its active life, the Bank had granted to thirteen countries twenty-four loans amounting to a total of 750 million dollars. Most of those loans had been made in dollars. Unfortunately, the Bank had had at its disposal only very small amounts in other currencies, but the dollars had been expended in several countries. Of the total disbursement of 567 million dollars made on Bank loans up to 31 December 1949, 5 million dollars had been spent in Asia and Africa, 27 million dollars in Canada, 51 million dollars in Latin America and 63 million dollars in Europe, in addition to the approximately 420 million dollars spent in the United States.

4. As was known, the loans the Bank had granted in 1947 had been for purposes of European reconstruction. Since the beginning of 1948, however, it had been concentrating on loans to finance development projects. During the last two years it had granted loans for electric power development in Chile, Mexico, Brazil, Belgium, Finland and El Salvador; for agricultural machinery in Chile, Colombia and India; for timber production in Yugoslavia and Finland, and for the wood-

working industry in Finland; for railway reconstruction in India and for shipping in the Netherlands. The programme had thus been very extensive, both from a geographical and from a technical point of view.

5. As a matter of fact, the programme of loans granted by the Bank had been even greater than would appear from that information. There had been, for example, the loan made to India for agricultural machinery, to enable that country to purchase heavy tractors and auxiliary equipment needed to clear a large area of weed-infested land. In Chile and Colombia, on the other hand, the agricultural machinery which had been bought had been of a much more general character. Part of that machinery had been sold to individual farmers, while the rest had been put into equipment pools from which it could be rented by small farmers. The same applied to the electric power development projects, one of which provided for the installation of a large central power station, using low-grade coal, in the heart of industrial Belgium, while another provided for a hydro-electric project in a tropical country as typically agricultural as El Salvador.

6. Surprisingly few people appreciated the amount of work entailed by the granting of those loans. It was easy enough to grant a country credit, but it was only the productive use of credit, not its mere existence, which helped a country to develop. Indeed, to grant credits which were unproductively used might do more harm than good. Before granting a loan, therefore, the Bank made a very careful study of the following factors: first, the borrowing country's capacity to service additional foreign indebtedness; secondly, the degree of priority of the projects which the Bank was requested to finance; thirdly, the financial and technical merits of the projects submitted to the Bank. That meant that the Bank had to make a thorough appraisal of the economy of the borrowing country, as well as of the projects the country wished to undertake.

7. Studies of that type took time, but such time was well spent. That point merited emphasis, not only because the Bank had to protect its own resources, but because it had also to ensure the effective utilization of the resources of its members. If the Bank could help its members to concentrate on the most urgent and productive projects, to embark first on what was essential and to take up only those projects which could be successfully carried through, the false steps saved and the waste eliminated might be worth far more than any financial assistance the Bank could provide.

8. The same was true of the technical examination of the various projects. Certain questions upon which the advice of the Bank's engineers was sought might seem, to a layman, unimportant, but it was such details as the height of a dam, the position of a power station, the appropriate type of tractor that made a project

profitable and efficient. The work thus accomplished by the Bank's engineers was "technical assistance" in its most practical form. It was an indispensable part of the Bank's lending operations, assuming that the Bank's function was not merely to provide funds, but rather to make sound and productive development possible.

9. Nevertheless, it was true—regrettably true—that the amount of loans made by the Bank had thus far been limited. That had been due not to the lack of money but to the lack of well-prepared projects ready for immediate execution. He would be very sorry if people were to imagine that the Bank was satisfied with that situation. It would very much like to be able to grant more loans. For the Bank to lower its standards, however, would in his opinion be a disservice to its members and would impair its ultimate effectiveness.

10. Mr. Black had high hopes that the existing obstacles to a greater volume of Bank financing would, over the next few years, be progressively removed, as a result of the technical assistance which was being provided for many under-developed countries by the Bank itself, as well as by other international agencies.

11. He had no time to review in detail all the varied types of technical aid which the Bank had been called upon to provide, but he did wish to stress that its scope was continually widening. To give but a few illustrations, the Bank had, upon request, sent irrigation experts to Peru and Iraq, a textile expert to Ecuador, an agricultural financing expert to El Salvador, a consultant on the financing of private enterprise to Turkey and an electrical and railway engineer to India.

12. The Bank was also planning to send technicians to several of its member countries to help them in the development of a local securities market. In each case, the Bank had done its utmost to adapt its aid to the needs of the various countries. It had not wished to lay down any strict rules and had tried, on each occasion, to act in conformity with the real situation in the country concerned.

13. Perhaps the most significant development in the Bank's technical assistance activities over the past year had been the organization, at the request of the Government of Colombia, of a rather comprehensive economic survey mission, designed to help the Colombian Government to formulate a long-term development programme for the country and to make recommendations in respect to administrative, economic and financial measures essential to the success of the programme. The mission, which had been headed by Dr. Lauchlin Currie, had not yet completed its report, so Mr. Black was not in a position to discuss the conclusions reached by the experts. He would like to say, however, that in his opinion the provision of that type of assistance was a logical step in the development of the relationship which the Bank had sought to establish with its member countries. The Bank had already received requests to send similar survey missions to several other countries and it was in the process of organizing such missions for Turkey and Guatemala.

14. Some years would have to elapse before the true value of that type of work could be known. It was common knowledge that the report of a mission, however brilliant it might be as an intellectual exercise, was of real use only in so far as its recommendations were adopted and put into practice. Nevertheless, in his opinion, there were grounds for optimism concerning the effects of a mission such as that which had been sent to Colombia, because if the country carried out the

mission's recommendations, the Bank would be in a position to supplement its efforts with financial aid.

15. In conclusion, he wished to reiterate what had already been said in the Bank's annual report, namely that the Bank could not and should not be expected to provide the answer to all or even a major part of the world's financial ills. It was not, for example, its function to cure the "dollar shortage", or to ensure the maintenance of full employment, or to satisfy short-term budgetary and balance of payments requirements. Although the Bank's operations did contribute to the solution of those problems, its essential objective was narrower and more precise: it was to help raise production levels and living standards through financing long-term productive projects, providing technical advice and stimulating international investment from other sources. That, he thought, was a sufficiently broad programme. The documents submitted to the Economic and Social Council showed that the Bank had already made a substantial contribution in that field and he was confident that the contribution would become increasingly significant.

16. Mr. RACHE (Brazil) congratulated Mr. Black on the precise and instructive statement he had made and recalled that the fourth report of the International Bank for Reconstruction and Development described the Bank's activities for the period from 1 September 1948 to 20 August 1949. The report contained a statement of all the loans granted by the Bank during that period as well as a summary of its other activities.

17. He noted that from 1 September 1949 there had been sufficient funds available to meet loan requirements and that it had not been necessary for the Bank to borrow money in order to raise the new capital necessary for its loan operations.

18. One of the Bank's Directors was at that time in Switzerland studying the possibility of using Swiss francs for certain loans which had already been approved. The United States had authorized the Bank to use the capital it had subscribed for loans. Belgium, Canada and Denmark had consented to the use of their currencies to the amount of 10 million dollars. On 31 December 1949, the Government of the United Kingdom had consented to the use of 500,000 pounds sterling. It would be seen that the Bank was not obliged to restrict itself to the use of its own capital in its loan operations.

19. Indeed, the chief source of funds for loan operations was the sale of bonds to individuals who wished to invest their capital in the United States or elsewhere. The bonds were guaranteed by the Bank's capital including the 80 per cent of unpaid capital. It was apparent from the introduction to the report that the Bank's bonds had been very well received on the market.

20. Although the Bank's capital amounted to more than 8,000 million dollars, only 20 per cent of that sum had been paid in. That percentage was all that the Bank could use for its loans. Of that 20 per cent only 2 per cent had been paid in the form of gold or United States dollars and was immediately available for loan operations. The remaining 18 per cent had been paid in the local currencies of the other member countries and could be used for loans with the consent of the country whose currency was directly concerned.

21. It appeared from the report that the Bank intended to request additional consents in order to be able to use a larger proportion of subscriptions in the national currencies of the other member countries.

22. Mr. Rache proceeded to recall the general principles set forth in the introduction to the Bank's report: "The Bank . . . should not be expected to provide the answer to all or even a major part of the world's financial ills. It is beyond both the purpose and the power of the Bank, for example, to cure the 'dollar shortage', or to assure the maintenance of full employment throughout the world, or to satisfy short-term budgetary and balance of payments requirements."

23. The report went on to state that the Bank's operations contributed in some measure to the solution of those general problems, though its essential objective was narrower and more precise; its basic mission was "to assist its member countries to raise production levels and living standards by helping to finance long-term production projects, by providing technical advice and by stimulating international investment from other sources".

24. According to the documents it had submitted to the Economic and Social Council, the Bank had granted loans amounting to 744 million dollars between 9 May 1947 and 14 December 1949. Out of that total, over 557 million dollars had been loaned to European countries and slightly over 186 million dollars to under-developed countries.

25. It was also stated that the loans to European countries had been granted mainly for reconstruction purposes. A sum of 512 million dollars had been reserved for industry, transport, fuel, shipping, fodder and the equipment of textile and chemical industries in France, Denmark and the Netherlands. Furthermore, Belgium, Luxembourg and Finland had received loans totalling 33,500,000 dollars.

26. The loans granted to Finland included one of 2,300,000 dollars granted on 17 October 1949 for the development of its timber industry. On the same date Yugoslavia had received a loan of 2,700,000 dollars for the same purpose. The term of both loans was two years and the rate of interest was 2 per cent, plus the usual 1 per cent commission.

27. Amortisation payments would begin on 30 June 1950. An extremely interesting feature of those loans was that both had been granted for the purpose of carrying out a plan for the development of the woodworking industry, worked out by FAO, the Timber Committee of the Economic Commission for Europe and the International Bank. The aim of the plan was to meet the current shortage of timber in Europe. That was a far-reaching measure in the economic field, and in view of the enormous forestry resources in South America it was regrettable that it had been taken in respect of such a small area only.

28. During the 1949 session of the Economic Commission for Latin America, held at Havana, an expert of FAO had submitted a report on the considerable supplies of wood which Europe might obtain from under-developed areas if the latter were granted the same facilities as European producers.

29. The undeniable urgency and importance of developing under-developed areas, and the very limited scope, at least in the field of economic development, of the loans granted by the Bank, showed the need for suggesting a change in the existing policy of the Bank. The Brazilian delegation considered that the Bank's operations were carried out in rather too orthodox a manner.

30. Upholding the need for stabilizing the flow of foreign investment in under-developed areas, the Group of Experts who had drafted the report on *National and International Measures for Full Employment*¹ had not concealed their pessimism regarding the Bank's ability to act as the main channel of international lending and to control investments.

31. According to those experts, two reasons prevented the Bank from fulfilling its main duty: in the first place, its resources were far too small to meet the needs of such a long-term investment programme. Not only had it very limited funds for direct lending but it had to rely largely on borrowing from private investors. Secondly, except in special circumstances, the Bank was restricted to lending on a specific project basis.

32. Mr. Rache stressed that he was not seeking to minimize either the past or the possible future contribution of the Bank to reconstruction and to the economic development of the world.

33. Nevertheless, the Bank itself recognized that although its loans might make a reasonable contribution to the economic development of the world, the conditions on which they were granted would hardly enable them to achieve a flow of capital large enough to promote the economic development of the under-developed areas.

34. In its study on the problem of full employment, the Group of Experts had suggested that, in addition to its existing functions, the Bank should be empowered to obtain funds by borrowing from Governments, and to lend to Governments for the purpose of speeding up economic development.

35. The loans would be granted for general development purposes and not for specific projects only. The main feature of the extremely complicated machinery devised by the experts for the purpose of extending the functions of the Bank was the creation by the various countries of a reserve fund for loans to be granted according to the merits and requirements of each particular development plan.

36. He did not wish at that stage to outline his Government's opinion of the advantages and disadvantages of the machinery suggested in the report. He would say, however, that the economic development of under-developed countries would be impeded so long as the Bank's policy remained unchanged.

37. It appeared from the Economic and Employment Commission's debate on the report of the Group of Experts that the under-developed countries could not do without foreign capital. The latter could only be obtained either by private investments or government loans.

38. The report of the Economic and Employment Commission emphasized the undeniable fact that private capital would be invested only if extremely favourable conditions existed both in the capital-exporting country and in the country of investment. It was absolutely essential that measures for the creation of a reserve fund and the suppression of double taxation of private capital in the lending countries should be adopted in all capital-exporting countries. Unless those measures were adopted, countries where capital was invested would find it very difficult to promote the favourable conditions which were unanimously regarded as indispensable for the investment of private capital.

¹ Document E/1584.

39. The Brazilian delegation believed that the Group of Experts who had examined the problem of full employment had been right to draw a clear distinction between loans for the financing of general development projects and those granted for the financing of specific projects. In his opinion, the former were by far the more important and represented the only possible method of attacking and solving the great crisis through which world economy was passing.

40. The report of the Bank stated that "the principal limitation upon Bank financing in the development field has not been lack of money but lack of well-prepared and well-planned projects ready for immediate execution". That statement was obviously correct. It should not be forgotten, however, that the preparation of development plans in under-developed countries usually entailed considerable expenditure, with the result that those countries could not prepare such plans unless they were absolutely certain of receiving the necessary loans. Mr. Rache recognized the existence of those difficulties in connexion with planning but he did not regard them as insuperable.

41. If under-developed countries had at least an initial guarantee of a loan, they would easily obtain technical assistance for the planning and the execution of their projects, not only from the United Nations but also from private organizations which specialized in that type of work.

42. The report of the Bank gave some indications of the Bank's policy towards United Kingdom and French colonial possessions. It would seem that the Bank's optimism regarding planned operations for the development of British colonies had not been warranted, for the Colonial Development Corporation had refused to avail itself of a loan of 5 million dollars.

43. It seemed that the refusal had been due to the Corporation's unwillingness to agree to the conditions imposed by the Bank. In particular, it was alleged to have objected to the following conditions: first, the borrower's obligation to keep the Bank regularly informed of the progress achieved in the execution of the projects and to allow the Bank to inspect and audit its accounts, and secondly, the borrower's obligation to authorize the Bank to inspect the goods purchased with the sums granted under the loan and to allow the Bank to supervise the way in which the funds were being used.

44. If the Bank were to finance general development plans with less crushing severity and if it did not limit itself to financing specific projects, there would probably have been no need for the conditions which had led the Colonial Development Corporation to refuse the loan in question, which, according to the Bank's report, was to have been the first of a series of similar loans. The possibility of including the "waiver clause" in the conditions imposed by the Bank might also be suggested. That would forestall the inevitable payment difficulties which under-developed countries encountered because they depended mainly on the export of raw materials which were liable to violent cyclical fluctuations in times of general depressions and were affected by deterioration of the "terms of trade" of raw materials.

45. Mr. ALI (Pakistan) pointed out that his country was perhaps the only member of the Council which was not a member of the International Bank for Reconstruction and Development and the International Monetary Fund. Nevertheless, it was greatly interested in the

activity of those two agencies. He had appreciated the valuable statements Mr. Gutt and Mr. Black had made to the Council.

46. The report of the International Bank was of considerable interest, both because of its review of the general problems of economic development and because of its statement on the Bank's activities. The delegation of Pakistan congratulated the President of the Bank on the excellent report he had presented. He agreed with the Bank that the under-developed countries should themselves make considerable efforts to ensure their economic development. It was gratifying to note that, at the request of several under-developed countries, the Bank had undertaken surveys of their needs and resources. Those surveys would provide the basis for a long-term investment programme. It was clear from the Bank's report that it could grant loans only for productive purposes, which had to be justified by purely commercial considerations. It was naturally advisable to have all the necessary guarantees regarding the liquidation of the loans.

47. The delegation of Pakistan considered, however, that, while keeping within the general principles of financial assistance that it had formulated, the Bank should study the possibility of extending its assistance on more liberal terms than it had done hitherto. The rate of interest it fixed, 3.5 per cent plus 1 per cent commission, was not low; it would be helpful if the Bank could consider the possibility of reducing it. The delegation of Pakistan would also like the President of the Bank to consider whether, by expanding its operations considerably, as it intended to do, the Bank would be able to reduce the 1 per cent commission it had charged hitherto.

48. Mr. CABADA (Peru) thanked the President of the Bank for his clear and illuminating statement. It would be well to consider some amendment of the Articles of Agreement of the Bank and the Fund, in order to take into account the programmes of technical assistance planned by the United Nations for under-developed countries. It was essential, for that purpose, to ensure the fullest possible co-ordination between the United Nations and the Bank.

49. It was obvious that the Bank's loan policy could not bring about immediate results. It should be made more flexible and should take into consideration the hopes of the peoples concerned. Peru, for instance, was following a policy designed to improve the well-being of its population through continuous economic development. The Peruvian Government encouraged the investment of foreign capital in its country. It had recently adopted a number of measures on that subject as a result of its having sent a mission of experts to the United States and in the light of recommendations by the authorities of the Bank and the Fund.

50. According to the Bank's report, only a relatively small part of the total loans authorized by the Bank had been granted for the economic development of under-developed countries. Moreover, the loans granted by the Bank to European countries had amounted to a total of 550 million dollars, while only 140 million dollars in loans had been authorized for the countries of Latin America. He realized how necessary it was for European countries to regain their pre-war production level. The time had come, however, to assist in the development of under-developed countries. The countries of Latin America had suffered to some extent from

the economic dislocation brought about by the war, yet they had not received the same amount of assistance as that given by the United States to European countries under the Marshall Plan.

51. The economic development of under-developed countries would help to overcome the numerous handicaps from which those countries were suffering and to which the Bank's report referred. The Bank should therefore follow a policy more in conformity with the principles which had guided the United Nations in the adoption of the programme of technical assistance to under-developed countries. Not only the under-developed countries, but the whole world, would benefit from such a policy.

52. Sir Ramaswami MUDALIAR (India) congratulated Mr. Black, the President of the Bank, on his statement. He expressed his Government's satisfaction with the loans the Bank had granted to India.

53. He pointed out that the eighteen members of the Council were elected by the representatives of the fifty-nine nations which formed the General Assembly. They should bear in mind the interests of the countries which were not represented in the Council. He intended to defend those interests.

54. Mr. Black had referred to Lord Keynes in his statement. Sir Ramaswami stated that he could never hear that name without emotion, for he held Lord Keynes in great esteem and remembered the important part he had played in the drafting of the Articles of Agreement of the Bank and the Fund. He would like to pay a tribute also to Mr. White for his remarkable contribution to that task. Finally, he recalled that Mr. Vinson, who had since been appointed Chief Justice to the Supreme Court of Justice of the United States, had most competently conducted the debates at which the Articles of Agreement had been drafted. It had been hoped at the time of their drafting that the Articles of Agreement of the Bank and the Fund would constitute a real "economic Magna Carta of the world".

55. Sir Ramaswami recalled the hope to which the San Francisco Conference and the Preparatory Commission in London had given rise. After an absence of two years from the various meetings of the United Nations, he sometimes felt as if he had returned to a changed world. He seemed to be witnessing brilliant intellectual exercises which were inspired by no lofty ideals. The Bank's report was a case in point. If he had been stockholder of a bank, and the Board of Directors of that bank had published a report such as that of the International Bank, he would, of course, have been delighted with it. In the circumstances, however, the report of the International Bank was not quite what he would have wished it to be. He had expected a report based on less logic, perhaps, but giving evidence of more idealism on the part of its authors.

56. In its report, the Bank had stressed some of the reasons why development was necessarily a gradual process. It had pointed out, in particular, that the development was "hampered by the limited resources of domestic capital available in most under-developed countries". It should be pointed out, in that connexion, that between the two wars private investors had frequently taken considerable risks. Such, for instance, had been the case with American investors who between 1920 and 1930 had financed a number of foreign loans. The losses which they had incurred at the time prompted them to be more careful. It should be emphasized, more-

over, that in the past European countries had made considerable foreign investments. In view of their current situation those countries were no longer able to follow that policy.

57. It was in view of the caution of American private investors and the economic situation in European countries that provision had been made for the International Bank to grant loans to countries needing capital. Referring to the passage from the report which he had just quoted, he emphasized that if the domestic capital of under-developed countries had not been inadequate, they would certainly not have applied to the Bank for assistance. They appealed to the Bank only as a last resort, after having approached private investors and foreign Governments.

58. He hoped that in its investigations the Bank would adopt a more liberal attitude in regard to under-developed countries. According to the first of its Articles of Agreement, the purpose of the Bank was to assist in the "restoration of economies destroyed or disrupted by the war . . . and the development of the productive facilities and resources in less developed countries". He pointed out that both those concepts were given the same degree of importance.

59. Sir Ramaswami stressed that if a colonial territory, for example, could not appeal to the metropolitan country for financial assistance in view of the latter's economic situation, the Bank could very well grant it a loan since it would have for security the human and natural resources of the territory concerned. Not only would the loan be repaid, but it would ensure the development and consequent transformation of a territory.

60. The Bank set an interest rate of 3.5 or 4 per cent for its loans. It also made the condition that the project for which the loan was granted should be productive. The report of the Group of Experts (E/1584), to which a number of speakers had referred, emphasized the need for projects which, from a banking point of view, could not be regarded as productive, but which, if carried into effect, would nevertheless promote the economic development of the country concerned.

61. It was the custom of the Indian Government to envisage two types of projects: productive projects, and projects to protect the population against such disasters as famine. Projects of the latter type were admittedly not profitable in the strict sense of the word, but their execution was of benefit to the country concerned and hence to the world as a whole.

62. Furthermore, it was difficult to define the exact criteria by which to determine the productivity of a given project. In some cases a project might not bring immediate returns, but it might contribute to the future economic development of the country. In its report the Bank referred to construction of hydro-electric stations. Such programmes were certainly not of immediate productivity; they only became productive when the electric power generated made it possible for new industries to be set up in that region. If that was the criterion used by the Bank, it should envisage amortisation of loans over a very long period of time. He was certain that if loans of that nature were granted, not only would the Bank be sure of the repayment of the capital loaned and the payment of the interest, but the development of the recipient countries would be promoted.

63. Sir Ramaswami found the Bank's policy with regard to rate of interest somewhat strange. While the rate of interest on loans authorized by the Bank was

4.5 per cent, he would point out that the Government of India had set a rate of interest of 2.5 and 2.75 per cent.

64. Article 3, section 1 (a) of the Articles of Agreement of the Bank provided that the Bank must give "equitable consideration to projects for development and projects for reconstruction alike", and section 1 (b) stated that it must "pay regard to lightening the financial burden and expediting the completion of such restoration and reconstruction". The meaning of that paragraph was clear: reconstruction should be carried out as rapidly as possible and at the least possible cost.

65. The world situation was not static and as things were it was not wise to follow a *laissez-faire* policy. Inactivity might have pernicious results.

66. The Economic and Social Council and the specialized agencies could do more than any other organ of the United Nations to improve the world economic situation. The International Bank for Reconstruction and Development and the International Monetary Fund could, by their activities, contribute to the maintenance of the peace which the whole world so fervently desired.

67. Mr. SCHNAKE VERGARA (Chile) recalled that his country had received very considerable assistance from the International Bank and the International Monetary Fund. His Government had taken account of the advice given it by the Economic and Social Council and the International Bank for Reconstruction and Development. It had applied the methods suggested and was satisfied with the results thus far achieved.

68. Furthermore, he could not forget that he represented more than his own country in the Council, since only four of the South American countries were members of the Council.

69. Not only his Government, but also the Economic Commission for Latin America had benefited from the assistance of the Bank and the Fund. During the Commission's second session the Fund had submitted an excellent report on the possibilities of establishing a multilateral payments system and, at the Commission's request, it had agreed to prepare a triangular payments system. He was sorry the Fund had not mentioned that point in its report.

70. There were certain points in common between the reports of the Fund and the Bank. One basic aspect of the two reports was the eagerness for co-ordination which characterized those two specialized agencies in their efforts towards world economic stability. He was particularly pleased with the parts of the two reports which dealt with that question.

71. In their reports, both the Fund and the Bank had emphasized their earnest hope that their work would ultimately form an integral part of the work carried out by the other international organizations and specialized agencies and that it would be possible to achieve continuous co-operation between the national and international organizations with similar experience and knowledge. The establishment of the technical mission at work in Colombia was already evidence of that co-operation.

72. It was essential that the Fund and the Bank should co-ordinate their activities, for if each organ followed a different programme without co-ordination between the two, the result would be duplication of work and a loss of time and energy which might well prove irreparable. It seemed from the Bank's report that much time was lost in organizing missions, investigations,

studies etc. Hitherto the work had been carried out in accordance with General Assembly resolution 200 (III). He hoped that, when the expanded programme of technical assistance was put into effect, the specialized agencies concerned would achieve more effective co-ordination of their activities. Otherwise they would simply dissipate their efforts and waste both time and money.

73. The Bank and the Fund seemed to share the same conception of economic development, but he felt that the missions and studies should be reduced in size and number.

74. He endorsed most of the comments that had been submitted to the Council with regard to the reports of the Fund and the Bank. Many of the ideas expressed were the result of pressure from what the representative of India had called "the man in the street", in other words, public opinion, for, in the last resort, it was public opinion which decided the future of the Western democracies.

75. He was somewhat concerned at the excessive confidence the experts seemed to have in the procedure they advocated and the measures they deemed necessary for economic development.

76. It could not be denied that the economic development of under-developed countries was an urgent matter. In all countries, public opinion was crying out for progress in that field. It was of crucial importance for the Western countries that the development programme should be put into effect without loss of time.

77. Vast areas of the world could not indefinitely await the pleasure of the experts, and organs such as the Economic and Social Council could not procrastinate. Neither studies nor investigations nor missions could cover up the obvious and basic fact that certain areas of the world were economically under-developed. He agreed with the Managing Director of the International Monetary Fund that what had already been done was a step in the right direction, but was insufficient.

78. The capital was available; the Bank had gained sufficient experience to enable it to adjust the criteria on which it based its agreement or refusal to grant loans. The international organizations, in fact, had everything that could be desired — everything except the real, sincere desire to pass from theory to practice.

79. The Bank and the Fund should not, however, be held responsible for the lack of achievement. Those two organs had acted for the best and had reached a satisfactory level of competence. The responsibility lay with the Economic and Social Council, which had not yet defined the criteria for the achievement of economic stability. The Council had not yet decided how the new order of trade relations was to be established or how the world could get rid of the existing economic paradoxes. It was strange, to say the least, that the countries which wished to sell could not do so, while the would-be purchasing countries could not buy. Those problems must be settled in the near future by resolutions of the Council. Those resolutions depended upon the zeal and sincerity of the governments represented in the Economic and Social Council and would bear witness to their efforts to overcome the chaos in the world economic situation.

80. The Bank and the Fund had been established to play a fundamental part and to a certain extent they had failed in their task, which was to achieve monetary

stability and to raise production levels and living standards. The Bank was, however, faced with problems it could not solve. It had stated very aptly in its report that those who had taken part in the Bretton Woods Conference had had no idea that the transitional period after the war would last so long or be fraught with such difficulties. The world was still going through that period of transition and the Bank stated quite rightly that as long as the resulting chaos persisted it could not fulfil the hopes the public placed in it. As the President of the Bank had said, the Bank could certainly not solve the problem of the dollar shortage, the problem of the disruption of trade relations and the problem of trade security alone and unaided. Thus, the world was not only going through a period of transition, but through a period of total insecurity.

81. It was significant that the report of the Monetary Fund should contain an account of the monetary operations carried out between the Fund and Belgium and should stress the fact that Belgium had been able to accomplish the operation. If the world were in a period of stability instead of being in the midst of chaos, the Fund's report would be a mere catalogue of similar operations, which would not then deserve special notice. The fact was that the Council had not yet devised a formula for establishing any economic order whatever in the world.

82. It was difficult for there to be any clarity in such a discussion as the Council was engaged upon. Indeed, the reports of the Bank and the Fund concerned only certain aspects of problems which were wider in scope than the problems of full employment and the economic development of the under-developed countries. Governments had long since realized the urgent need for measures for the promotion of economic development and stability. Unless the Council took practical measures in the near future, it would run the risk of falling into oblivion and losing the support of public opinion. There was therefore need for speedy and positive action.

83. He agreed with the Indian representative that world political stability was not an indispensable prerequisite of economic stability. Both the Bank and the Fund had indicated in their reports that countries receiving assistance from an international organization should themselves make efforts at the national level. He was in full agreement with that view. Indeed, no country could any longer hope to emerge from chaos if it made no effort itself and relied solely on foreign assistance and international co-operation. There was, and indeed there should be, a very close relationship between national efforts and international co-operation.

84. Chile, for instance, had received missions sent by the Bank for the purpose of supplying technical assistance. In dealing with Chile's request, the Bank had drawn the Chilean Government's attention to certain factors which, it felt, might compromise the effectiveness of the loan and impede the resumption of international investments in that country. The Chilean Government had taken speedy action to remedy those factors. It had taken steps to balance the national budget, improve currency exchange controls and to check the drain on the country's reserves of gold and foreign currency. Chile had concluded agreements with committees representing holders of foreign stocks, concerning an adjustment of the external debt of the country, the interest on which had been completely discontinued since 1931.

85. Chile's economic position had improved considerably in 1948. The value of exports had increased by 19 per cent, while imports had remained at the 1947 level; international payments had been balanced, there had been a budget surplus of nearly 10 per cent and the tempo of inflation had been slowed down. Both industrial and agricultural production had greatly improved and considerable progress had been made in the mechanization of agriculture and the expansion of industrial installations. That progress should serve to reduce the effects on Chile's economy of the recent and sudden fall in copper prices.¹

86. That was an illustration of the efforts which could be made by countries to balance their budget and of the measures they could take to achieve stability of wages and prices.

87. Efforts at the national level, like the efforts of the Bank and the Fund at the international level, depended not only on the will of any country but also on the joint desire of all countries to co-operate in the international field. Both the Bank and the Fund noted in their report that that had not yet been achieved.

88. Sir Sydney CAINE (United Kingdom) said it was clear from the statements made during the meeting that two schools of thought were represented in the Council. On the one hand, Mr. Black, submitting the report of the International Bank, had shown that his organization was carrying out remarkable technical operations and thus contributing within its own sphere to the development of international co-operation. The Indian representative, on the other hand, had made a moving statement outlining some ideals which should guide the policies of the Bank and the Fund. Those two tendencies emphasized the main problem which the various Governments had to deal with before they could attain lofty ideals, but they also showed how wide was the gap between ideals and practical realization.

89. The various economic problems of the moment were linked together and it would be difficult to ensure any development of international investments, without at the same time improving the political and economic situation.

90. In the past the United Kingdom had invested considerable capital abroad. Because of its economic position, it could no longer invest capital in any countries except those with which it was closely linked. The United Kingdom was also responsible for the well-being of the numerous under-developed countries under its jurisdiction; they certainly included some of the most under-developed countries in the world.

91. For several years he had been concerned with the problem of financing the economic development of British colonies. Consequently, he did not in any way underestimate the under-developed countries' need for foreign capital: only by means of such capital would they be able to improve their living standard. Nevertheless, the more the problem was studied, the more it became evident that a satisfactory solution had yet to be found. It was not simply a question of recognizing the close relationship between economic problems and political stability, but also of finding a suitable technique where international investments were concerned. Indeed, it was impossible to rely on one sole type of in-

¹ See *Fourth Annual Report of the International Bank for Reconstruction and Development* (E/1557). Loan Activities, Latin America.

vestment for the solution of the problem of the economic development of under-developed countries.

92. The International Bank was, he considered, discharging its responsibilities in a satisfactory manner. In his survey, Mr. Black had emphasized that the Bank could not be expected to solve all international and economic problems. No doubt he would also agree that the Bank could not solve the problem of international investments by its own unaided efforts. The Bank carried out its operations within the framework of the Articles of Agreement which defined the scope of its activities.

93. The representative of India had spoken of the high ideals which had inspired the authors of the Bank's Articles of Agreement. It was impossible, however, to avoid the impression that the text they had finally adopted did not wholly correspond to those ideals. The Bank deserved only praise for having followed a cautious loan policy. The statement of the Bank's activities showed that it sincerely wished to extend the scope of its operations. The Bank was one of the sources of international investments. It had established a sound foundation in that field.

94. It was disappointing that the Bank's negotiations with the British Colonial Development Corporation had not reached a successful conclusion. That exemplified the difficulty of reconciling some of the circumstances of colonial development with the conditions imposed by the Bank. Without wishing to criticize either of the two parties, he hoped that means would be found in the future of reconciling those differences.

95. In conclusion, Sir Sydney declared that the Bank had made a successful start with its loan operations and that it would be better not to force it to expand its activities unduly.

96. Mr. BLACK (International Bank for Reconstruction and Development) said that he would answer the points several speakers had raised by giving certain details of the Bank's structure and its methods of operating.

97. The subscribed capital of the Bank was divided into two parts: 20 per cent was subscribed by member States as needed by the Bank for its operations. The remaining 80 per cent was subject to call by the Bank only when required for the granting of loans. Of the 20 per cent subscribed by members, 2 per cent was payable in gold or United States dollars and 18 per cent was payable in the currencies of the various member States. Up to the present, a total of 700 million dollars in gold and United States dollars and 900 million dollars in other currencies had been paid into the Bank. It had borrowed 250 million dollars on the market, drawing chiefly upon the United States market.

98. In spite of the fact that the 80 per cent of the capital which was subject to call only on certain conditions constituted a guarantee in case the Bank should not follow a sound policy, it would be difficult for the Bank to obtain liquid funds without calling upon the American market.

99. The rate of interest required by the Bank had also been criticized. That rate was clearly determined by the way in which the Bank procured the funds it loaned. As a matter of fact, loans granted by the Bank did not bear a fixed rate of interest of 4.5 per cent. In the case of India, the Bank had granted two loans, one at the rate of 2.5 per cent and the other at the rate of 3 per cent. If to those rates the normal commission of 1 per

cent was added, it would be noted that the actual rate charged was 3.5 per cent in the first case and 4 per cent in the second.

100. He pointed out that the commissions collected on loans granted or guaranteed by the Bank had to be set aside as a special reserve fund which would be available to meet obligations which the Bank assumed in contracting or guaranteeing loans. The Bank was to collect that commission over a period of ten years; if at the end of ten years it had not suffered any serious losses it could reduce that additional charge substantially and perhaps even do away with it entirely. It was not correct to say, therefore, that the Bank's rate of interest would remain the same; it might possibly be reduced.

101. The rate of interest on loans granted by the Bank was in relation to the rate of interest on the money it borrowed. For example, if the Bank could borrow capital at 3 per cent for a period of twenty years, the loans it granted out of those funds would be at the rate of 3 per cent, plus 0.25 per cent for administrative expenses, plus a 1 per cent commission. Consequently if its credit improved, the Bank could hope to borrow money at a lower rate and the persons receiving loans from the Bank would benefit from that reduction. The Bank did not, therefore, have a fixed rate of interest. It was doing everything possible to borrow funds on the most favourable terms possible. It could not set an arbitrary rate of interest on loans it granted, because the only funds it could lend were those it obtained on the financial market and it could not therefore ask a lower rate than it had agreed to pay. In that connexion, Mr. Black said that the Bank had recently been able to contract loans at a lower rate of interest than had hitherto been possible.

102. Some speakers had criticized the total of the loans granted to European countries as compared with those granted to Latin American countries. He pointed out that during the first years of the Bank's existence it had had to give priority to reconstruction needs. It was beginning to concern itself with programmes of economic development throughout the world.

103. In conclusion, he invited the President and the members of the Economic and Social Council to spend a few days in Washington as guests of the Bank after the close of the session. He would like to have an opportunity to explain the Bank's operations in greater detail and he thought the staff of the Bank would also be interested in hearing the Council's comments.

104. The PRESIDENT, speaking on behalf of the members of the Council and himself, thanked Mr. Black, the President of the International Bank for Reconstruction and Development, for his statement and for his replies to the questions put to him. He also thanked him for the invitation, to which he would reply in due course.

105. The general discussion having been concluded, the President proposed that the Council should adopt a resolution similar to the one adopted on the report of the International Monetary Fund (352nd meeting). He proposed the following draft resolution:

"The Economic and Social Council

"Takes note of the report of the International Bank for Reconstruction and Development."

That draft resolution was adopted.

The meeting rose at 5.45 p.m.