Public Disclosure Authorized

Public Disclosure Authorized

Annual Address by

GEORGE D. WOODS

President of the Bank and its Affiliates

I SHOULD LIKE first to join the Chairman in thanking His Excellency, the President of Brazil, for his words of welcome. His country comprises nearly half the area and population of South America. It is two and a half times as large as Western Europe, including the British Isles and Scandinavia, and has a fourth of the population—there are about 87 million Brazilians. It is rich in minerals and agricultural resources. It has a third of all known iron reserves and the world's fourth largest potential for hydroelectric power. In production, it ranks first in coffee, third in manganese, fourth in sugar, and eighth in iron ore. Despite a long history of recurring economic difficulties, Brazil has managed in the last 20 years to triple its Gross National Product and to more than double the real per capita production and income of its people. This is a vast and fascinating country which well mirrors the aspirations and the problems of the developing nations. We are happy to be here.

Mr. Chairman, you and the other Governors have the detailed record of the World Bank Group's activities of the past fiscal year in the Annual Reports of the Group—the World Bank itself, the International Finance Corporation (IFC) and the International Development Association (IDA). I will not take your time by repeating what you already have before you on the printed page. Suffice it to say that the operations of the Bank Group continue to grow. Once again commitments were more than a billion dollars and in more numerous and varied transactions than before. The growth of the operations of IFC, our private enterprise arm, now newly backed by a line of credit from the Bank itself, was especially marked. Disbursements of the Group exceeded a billion dollars. Technical services to members increased. Our activities in the coordination of aid continued, and we feel that we are slowly making headway in this complex and vital task. After several years of preparation, we brought into being the International Centre for Settlement of Investment Disputes to encourage the flow of private investment into the less developed countries.

For the second consecutive year, I must report to you that finding finance for the operations of the Bank and IDA is a dominant continuing problem. In the case of the Bank, the consequence of a high rate of disbursement plainly must be large borrowings. Since our last meeting we have arranged to borrow $700 million, of which $380 million was new money and $320 million was for refunding.

Over the past year, IDA has been able to make commitments and carry on its operations, due in large part to extraordinary support given to the Association from several sources. The Swedish Government, for the sixth consecutive year, made a welcome special contribution to IDA. The Swiss Government has started legislative machinery for authorizing a loan to IDA on the same highly concessionary terms IDA accords to its borrowers—a loan which will break new ground in IDA finance, being the initial borrowing by the Association. And the Bank, with the approval of the Governors at last year's Annual Meeting, made a transfer to IDA from its net earnings of the fiscal year 1965/66.

This year, the Governors are asked to approve Bank support for IDA again, but only in a token amount. The Governors will recall that Bank transfers to IDA have been considered each year in the light of the Bank's own financial position. The guiding policy, approved at Tokyo in 1964, has been that transfers are made only in amounts "not needed for allocation to reserves or otherwise required to be retained in the Bank's business and (which), accordingly, could prudently be distributed as dividends."

The transfer to IDA recommended this year is in a token amount for a simple reason: the volume of Bank disbursements, against commitments previously made, is rising; and the needs of the Bank for finance to carry on its operations, as I have said, will be correspondingly heavier. At the same time, the Bank has not been given the access to capital markets that its operations warrant. We have been disappointed, but I hope only temporarily, in our plans for offering long-term issues in several European member countries. It is highly desirable that we borrow substantial amounts in those markets in the current fiscal year, and there is good evidence that we will be able to do so.

In any event, Bank assistance for IDA can only be marginal; the chief supporters will always be the more prosperous member countries. Agreement among governments concerning the amount, the shares, and the conditions of the next replenishment of IDA's finances has not yet been reached. This past summer, however, discussions of these questions have become both more concrete and more intense, and I am encouraged to feel that they will now move forward to definite conclusions. In fact, I feel that here—in the atmosphere of this Meeting—solutions may begin to take form. I am sure all concerned recognize that it is essential that the IDA replenishment be agreed upon as rapidly as possible and that results be achieved which will permit IDA to respond, much more adequately than in the past, to the priority needs of the less developed countries.

Mr. Chairman, when we turn from our own operating preoccupations to look around us, we see a troubled world. Painful dislocations and adjustments are taking place in nations of Africa, Asia and the Middle East.

During the past year, conflicts, domestic and external, have pre-empted the energies, the concern and the resources of nations, both industrial and developing. The tragedy of armed conflict and preparations for it is more than the diversion of manpower and scarce funds from productive uses. The tragedy is also in the turning away from development it produces around the world. Conflicts, within and among the developing countries especially, feed the prophets of doom who claim that economic development does not work. They slow whatever momentum may have been achieved. They harm not only the countries directly involved; they harm the cause of development everywhere.

Deep-rooted social unrest short of outright conflict exists in many societies, and solutions are neither simple nor swift. Towering high over all the economic problems is the fact of rapid population growth—now proceeding fast enough to double the population of the less developed countries in a single generation. Here in Brazil, it is expected almost to double in twenty years. It is encouraging to see some countries beginning to make advances in the field of population control, but present measures constitute only a beginning.

Experts say that at best, the rise of population curves will not begin any pronounced deceleration for another 15 or 20 years. In that time, the less developed countries must greatly increase both the output and the nutritional value of food: they must produce more, both to feed more people and to feed people more. The food requirements — to double the present output by 1980 and to triple it by the end of the century according to the Food and Agriculture Organization of the United Nations—seem staggering.

However, none of the formidable problems facing the developing countries can be attacked singly or by technical means alone. The world is not going to be saved simply by chemical fertilizers and "the pill." The changes needed by the less developed countries touch virtually all of society. They will come about as part of a larger transformation of social and economic organization—as part of the larger process we call economic development.

In that process, education must play a pervasive part, teaching new skills and cultivating new attitudes toward social and economic change. In too many of the less developed countries, however, educational systems are not yet adequate for this essential purpose. They have yet to strike a proper balance between various levels and kinds of education, and in too many cases, the curricula being followed were not designed for, and have not been adapted to, the country in which they are being taught. The schools and universities are not yet doing enough to develop farmers, engineers, administrators, teachers and the legion of other skilled workers geared to the development needs of the economy.

Development takes capital. Four-fifths of the investment being made today is being made out of the resources of the developing countries themselves, but the all-important leaven for the loaf must come from outside. With the rate of private international investment currently down, with parliamentary bodies in some of the largest aid-providing nations reluctant to augment bilateral programs, and with delays in enlarging the financing capability of multilateral agencies, there are reasons for discouragement.

On the other hand, this situation is not exceptional. There have been many years in which exactly these same observations could have been made at the Annual Meeting of this Board of Governors. Progress is always slow, always difficult. The way ahead always seems blocked by frustrations, postponements, errors of commission and, even more, of omission. But we must plough ahead. Responsible and dedicated ministers in developing countries should not lose heart. Harassed parliaments and men of broad vision in industrialized countries should take a second breath as we approach the close of the Development Decade of the Sixties and face the Seventies. Each must at intervals appraise the problems of the other. In the interest of the long-range well-being of both, there must be a constructive reconciliation between the natural impatience of the poorer, newer nations on the one hand, and the pressing problems facing the legislators and Cabinet ministers of the rich countries on the other.

The Chinese have a proverb that a journey of a thousand miles must begin with a single step. In the case of economic development, we have taken not only the single step but many, many steps beyond that. Over the years, all those steps add up to a journey for which there is no exact precedent in the history of man and from which, I believe, there is no turning back.

Remember that for most of history the lot of human beings has fluctuated only between varying degrees of poverty. For most of mankind, life has been nasty, brutish and short.

Something new is happening in today's world. Over the past 15 years, economic growth in less developed countries embracing not less than half of mankind has been proceeding as fast as in the industrialized countries. Over this span of 15 years, the Gross National Product in the developing countries has more than doubled, and per capita income—despite the rapid growth of population—has increased by 40 per cent.

Among the countries of the world, the fastest rate of growth, in fact, is now being experienced by those nations in the per capita income bracket of only $300 to $600 a year. There are at least 25 countries[1], many of them from this income group, in which Gross National Product grew during 1966 at a rate between five and ten per cent, and there are nine countries[2] in which recent average growth rates, if continued, will double Gross National Product within the 1960s.

The economies of many developing countries have been maturing. Progress in the industrial sector, as we all know, has been particularly rapid, and exports of manufactures, while still originating chiefly in a limited number of countries, have increased by 70 per cent in the 1960s. Institutions have also matured—evidenced by an encouraging flow of technical assistance among the less developed countries themselves. An impressive infrastructure of physical facilities, especially in the form of power installations and transportation services, representing billions of dollars, has been put in place. And—for the first time in history—the improvement of the fortunes of mankind has been accepted as an international objective and responsibility.

Those of us who are deeply involved with the problems of the developing countries necessarily think and talk a great deal about the difficulties we face. I would like to hear more talk about some of the success stories in development. It is time that we began to say to the taxpaying public and the legislatures of the industrial countries that the development effort they are and will be asked to support can be successful and has been successful in some important sections of the world. Among the countries which would currently be on my personal list for special mention for economic achievement would be Iran, Israel, Korea, Malaysia, Mexico, Pakistan, the Republic of China, Thailand, Tunisia, Venezuela and Yugoslavia.

The reasons why some countries have been more successful than others are different from case to case, but they are not

[1]Including Bolivia, Chile, Colombia, Costa Rica, Greece, Guatemala, Honduras, Jamaica, Kenya, Korea, Malaysia, Mexico, Nicaragua, Nigeria, Panama, Peru, Philippines, the Republic of China, El Salvador, Spain, Tanzania, Thailand, Trinidad & Tobago, Turkey and Venezuela.

[2]Greece, Israel, Jordan, Korea, Nicaragua, Panama, the Republic of China, Spain and Thailand.

mysterious or unidentifiable. The Bank is continually informed about both progress and setbacks in the development performance of its member countries. It is our business to know why things work well when they do and why things go badly in other cases. Our conclusions about the facts of economic growth and our judgments about the effects of various factors, including government policies, in promoting or impeding that growth are regularly communicated to member governments, through our Executive Directors, in our economic reports. I commend these reports to any Governor who may from time to time need evidence to substantiate the claim that economic development, where it is pursued with vigor and intelligence, is worthy on merit of the support of the industrialized nations.

That is not to say that progress has been fast enough, or that throughout the less developed world, the formidable barriers to self-supporting economic growth are about to fall. But forward movement is under way, and on an enormously wide front—forward movement that has tangibly affected the lives of present generations in the developing countries, and promises still more for the generations to come.

Mr. Chairman, I am increasingly impressed—and at times depressed—by the scope of the changes which traditional societies must make in order to modernize themselves. These changes have to reach to the very core of the lives of peoples in the less developed countries. By contrast, in the industrialized countries, only marginal changes in their relations with the underdeveloped countries would be of the greatest significance.

Take trade: as we know, exports—especially of primary products—are the chief source of foreign exchange for the less developed countries. They provide about four times as much as official development finance and international private investment. Export earnings, historically, and for most developing countries today, are the main fuel of development.

The total exports of the less developed countries, however, have not been growing sufficiently fast. For some countries, the lag in export growth has been caused, in part, by mistaken policies—among them, overvalued exchange rates and too much priority to import substitution, no matter how uneconomic. In part, it is due to neglect of quality and continuity of supply. But some part of the difficulty has been the lack of cooperation given by the industrialized countries through the removal of impediments to the exports of the developing countries.

Suppose that the exports of the less developed countries, instead of declining as a proportion of world trade, had been able last year to maintain the same modest position that they had occupied five years earlier. On that supposition, the less developed countries would have had a 1 per cent larger share of world exports—and that 1 per cent would have earned them well over $1 billion more of foreign exchange than their exports actually did earn in 1966.

If a 1 per cent adjustment in shares of world export trade would bring about a billion-dollar improvement in the fortunes of the poor countries, then surely the matter is worth consideration and action. Price stabilization for selected primary products is a closely related subject similarly entitled to consideration, even though it admittedly presents difficult problems. If the less developed countries are encouraged — and permitted — to improve their export earnings, many problems will become more manageable: external debt crises will be fewer, the need for aid will diminish, the attraction for private capital will grow.

On the volume of development finance, Mr. Chairman, my views are well enough known not to need—and perhaps not to bear—repetition today. Official transfers from the industrial countries to the less developed nations have only slightly increased over the last five years, while the output and the income of the industrial countries have been bounding vigorously to new highs.

The available amount of international development finance is falling farther and farther behind the economic capacity of high-income nations to provide it, and farther and farther behind the capacity of developing countries to use it productively. As a proportion of the Gross National Product of the industrial countries, the flow of public and private finance to the developing countries is one hundredth; but as a proportion of what the developing countries have available to invest in development, it is one-fifth. Here again, a change that would be marginal to the industrial countries would be greatly magnified in the finances of the poor.

Apart from the question of volume, which currently presents very real political and budgetary problems in certain industrialized countries, much can be done to enhance the value of such development finance as is available.

First, greater continuity of financing from one year to the next would lead to a steadier and more effective effort in the developing countries themselves. The steps that several countries are taking to formulate their annual development assistance budgets within the framework of multiyear targets is greatly to be welcomed.

Second, the long-debated question of the terms of aid has become acute. If the volume of development finance does not grow, and if there is no improvement in the terms, development aid will simply eat itself up. Service on past official debt, including both interest and amortization, already offsets two-fifths of the official flows of capital to the developing countries. For some aid-giving countries, the net transfer of official capital, on the basis of present policies, soon will be zero. Since 1962, as our Annual Report relates, payments on debt service have more than doubled in East Asia, have increased by 90 per cent in South Asia, and have risen by almost 75 per cent in Africa. Latin American debt continues to be heavy. Almost half of all current debt service is on suppliers' credits, often due to be repaid before the equipment they finance has begun to make a perceptible contribution to the productivity of the borrowing country. On average, the terms of development finance are little, if any, better than they were five years ago. The absolute essential, if development assistance is not to become an exercise in self-defeat, is for a decisive move toward much longer grace periods and repayment terms as well as toward lower initial interest rates.

Third, with my experience of the past five years—this is the fifth year that I have the privilege of addressing this Governors' meeting—I continue to believe that assistance provided through multilateral channels has advantages of objectivity, economy and suitability of which donor countries should take greater advantage. In this connection, even though the funds flowing multilaterally are not yet adequate, I am encouraged by the amount of development assistance now being designed within multilateral frameworks — through such devices as consortia and consultative groups.

Finally, let me observe that the effectiveness of development finance would be particularly enhanced if aid-providing countries were to evolve common strategies of assistance. Economic development would benefit greatly if the donor countries had consistent and mutually reinforcing views about the objectives they wish to achieve in their relationships with the developing world, about the importance of these objectives to their own national interests and about the level of resources, the mechanisms and the techniques which should be employed to achieve these objectives.

Mr. Chairman, you probably remember the story of Cassandra, the Trojan princess of 3,000 years ago who correctly foretold the perils that confronted her people, and who, for her pains, was thrown from the battlements of Troy. Let me quote today from a prophet who suffered a less disastrous fate. He said:

> "The urgent need for a great creative effort has become apparent in the affairs of mankind. It is manifest that unless some unity of purpose can be achieved in the world, unless the ever more violent and disastrous incidence of war can be averted, unless some control can be imposed on the headlong waste of man's limited inheritance of coal, oil, and moral energy that is now going on, the history of humanity must presently culminate in some sort of disaster, repeating and exaggerating the disaster of the Great War, producing chaotic social conditions, and going on thereafter in a degenerative process towards extinction."

This prophet was the British author, Mr. H. G. Wells, writing after the First World War. Mr. Wells was right: mankind did repeat and exaggerate the disaster of the First World War in World War II. Whether the rest of his prophecy will be fulfilled remains to be seen; but, certainly, creative acts are even more needed in our day than they were in his.

In the field of economic development and development assistance, policies and performance that were tolerable 20 or even 10 years ago are not good enough for today—they are not likely to survive tomorrow—and this is true with respect to both developing and industrialized countries.

The past is not a sufficient guide, for the situation of humanity today is unprecedented. Never in the past was so much of mankind caught up in a single issue. Never has technical change been so basic and so effective. Never has social change been so rapid. Never has the increase of population been so swift. Always before, the world's opportunities and problems increased by addition; now they are growing by multiplication.

What began tentatively as the development effort after World War II is now established as a planet-wide undertaking of some concern to every government on earth. When the story of our times is written, historians may mark as their outstanding contribution the idea that human progress can be deliberately planned, engineered and brought about—and further, that progress need not be confined to the minority of the world's population which lives in wealthy countries. I hope too that our times will be noted for the moral imperative that has caused the nations to organize and work together in the cause of development. Although sometimes obscured, that motive is always at the foundation of all our efforts. Indeed one of today's most hopeful signs is the clarion restatement of that imperative by those world leaders who concern themselves with morality and destiny—by Pope Paul in his encyclical of last spring, "On the Development of Peoples," and by the World Council of Churches, earlier this year, in the Report of the World Conference on Church and Society.

Mr. Chairman, it is the proud task of the Bank Group and its member governments to engage in a mission of noble purpose. There exist on this planet the knowledge and resources to create a future in which mankind can be decently fed, clothed, and housed, and beyond that, in which men—individual men and women—can devote their talents to improving the quality of life for all.

Now let us gather the resolve to work with all our force and ingenuity to make that future real.