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(With Mr Black's notes
from speech copy)

COMMON SENSE AND ECONOMIC AID

Address by Eugene R. Black, President of the
World Bank, to the National Farm Institute
Des Moines, Iowa
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Mr. Chairman:

I am very grateful for this opportunity to appear before the National Farm Institute, and am glad to respond to the suggestion that I tell you something about the operations of the World Bank.

Beyond that, speaking as an American from the vantage point of experience in the Bank, I want to express some views on the subject of American economic aid to other countries. This is a subject about which there is already much confusion, and there is likely to be still more confusion about it as the result of current offers of Soviet economic aid in Asia and the Middle East. Some of you may also expect me to say something about the High Dam project in Egypt; so I will say a few words about that as well.

The business of the Bank is economic development. In nearly all of the world outside North America and Western Europe, the idea of economic development is new. About two persons out of every three in the free world have had little or no contact with 20th century technology, with modern methods of production in industry and agriculture, or with anything like the best that modern medicine and schooling can provide.

Production is low, earnings are low, standards of living are low. In South Asia, for instance, the per capita intake of food a day is less than half the calorie value consumed in the United States. And while statistics do not need

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always to be taken at face value, the fact that per capita income in Ceylon is calculated at \$115 a year, in India at \$65 a year, in Pakistan at \$55 and in Burma at \$50 -- is nevertheless an indication that most of the 600 million people in these countries are living at the level of bare subsistence.

Now the developed countries do not owe the underdeveloped countries a living. But the idea is of long standing that an international flow of capital can be of mutual benefit to both investor and recipient. It was this idea that helped bring about a great expansion of prosperity in North America and Western Europe in the 19th century -- an idea of which Americans, as recipients, and the British, as investors, were among the chief beneficiaries. And it is this idea, of international investment as a means to economic expansion and mutual benefit, on which the World Bank is founded.

The Bank has now been in operation for nearly 10 years, and has invested about 2-1/2 billion dollars in public and private projects in 40 different countries. Our first loans were made in advance of the Marshall Plan to help maintain a flow of imports from the United States that were essential to reconstruction in Western Europe.

Although we have continued to lend in Europe, most of our operations since 1947 have been carried out in underdeveloped countries. These countries are not poor because they lack natural resources, but because they have not yet done enough to develop the resources they have. To give you two extreme examples: Despite a hydroelectric power potential of some millions of kilowatts, West Pakistan today has less than 50 thousand kilowatts of electric generating capacity based on water power. Honduras, a farm country which is one of the largest in Central America, has only 20 miles of paved road.

The fundamental task which the loans of the Bank are helping to carry out is to construct or enlarge the basic facilities essential to modern economies.

Since reconstruction, we have lent \$660 million for the expansion of electric power services. We have lent another \$600 million for transportation facilities -- to buy equipment for the construction or operation of motor roads, railroads, ports and inland waterways.

We have lent a quarter of a billion dollars for industry, and a little less than that for the improvement or expansion of agriculture through land reclamation, irrigation and farm machinery. Finally, we have lent about \$140 million for programs of development embracing projects in several or all of these basic fields.

A few minutes ago, I referred to the Bank's "business", and I used that term advisedly. We do not pay our bills from your taxes; we support our activities out of our own earnings. Our loans are being repaid on schedule -- indeed, we have received more than \$110 million of repayments ahead of time. Our net income is running at a rate of around \$25 million a year, and our reserves out of earnings and commissions amount to more than \$200 million.

So far from competing with private capital, the Bank has worked actively -- and successfully -- to encourage the participation of private capital in international investment. While we began our lending operations nine years ago out of payments which our member governments made for shares of our stock, our most important source of new capital has been private funds.

We have tapped that source most often by the sale of our bonds, of which \$860 million worth are now outstanding. We have also sold some \$225 million worth of our loans to other investors, who either buy them out of our portfolio or participate in the loans when they are made.

Up to now, I have spoken in terms of dollars, but only as a convenient way of describing sums that include other money as well. The Bank is an international organization, and its sources of finance are by no means confined to the

United States. We have lent 17 different currencies in all; and in recent years, half of our new loan funds -- from foreign government subscriptions to our capital, from our sales of bonds to foreign investors, and from earnings -- have come from outside the United States.

The fact that the Bank is an international organization is of advantage to the governments of developed countries, including the United States, because it enables them to share out development costs with private investors and with each other.

The Bank's international character also gives rise to another advantage of greatest importance -- and that is the opportunity to work effectively and closely with borrowers and borrowing countries in ways, that for the most part, are not equally open to individual governments in their dealings with other nations. Precisely because we are international, we cannot in truth be charged by our borrowers with operating from selfish motives of profit or economic exploitation, nor can we be charged with discriminating between different countries for reasons of politics, strategy or diplomacy.

Another and shorter way of saying this is that we can, and do, apply business-like standards to our lending. The Bank lends, in the normal course, for specific projects. We do not finance the whole cost of those projects; the borrower himself must make a substantial investment, and is usually required to find all those funds needed for local expenditures on labor and materials. We estimate that our \$2.5 billion of lending is being matched by well over \$3 billion of other investment.

We pick and test projects with a great deal of care. We visit the field and get our applicants to demonstrate how the project fits in with the rest of the economy and whether it promises to be sufficiently productive and important to justify the borrowing involved. We send engineers and other technical people

to see whether the project will actually work, to check specifications, construction plans, production costs, market prospects and any other matters that may affect the outcome.

We follow projects carefully from the start. As the project progresses the borrower sends us reports on construction, arrival of goods, expenditures and other details. And at intervals, we send our people to see whether plans are working out as expected, or whether some help is needed to iron out technical or organizational difficulties. Throughout the life of the loan, moreover, we periodically send out people to make a quick check-over of the economy of the borrowing country; and they report to us any developments that may have a bearing on the repayment of our loan or on possibilities of future investment.

Economic development, however, obviously does not come about through the execution of this or that particular project. The effects of even the best project may be lost in an economy that is going adrift; and the whole process of development requires intelligent use of a country's resources as a whole. It calls for the wise budgeting and direction of public investment toward realistic goals, and it requires public economic and fiscal policies that will support private initiative and private investment.

The Bank hammers very hard at this matter of encouraging private enterprise and private investment within the underdeveloped countries themselves. We have worked for proper government policies, and we have declined to support government ventures in fields of industry which should be competitive and for which, under the right circumstances, private capital could be found.

In short, the Bank is not only interested in projects, but in whether the underdeveloped countries are themselves making the most of their own opportunities. We discuss these considerations with prospective borrowers before we lend; we offer advice on these matters when we feel that it is useful to do so; and not

infrequently our decision to lend or not to lend depends upon the outcome of these discussions. In more than one case, we have decided that our most effective contribution to development can be made by shelving loans until the prospective borrower has begun to straighten out his own affairs, and to do what it lies within his power to do with resources already at his disposal.

In other words, the Bank has not tried to be popular. We have tried to be effective and to win respect. And it is generally recognized, I think, that in these things, we have succeeded.

Last Sunday morning, I returned from two weeks of discussions in Cairo with Colonel Nasser, the Prime Minister of Egypt, and with members of his government concerning the carrying out of the project to build a multi-purpose dam on the Nile River. I want to mention this briefly because it is a subject of current interest and because it may illustrate in particular some of the points I have already made in general.

As some of you are aware, the project consists of three elements. One is the construction of the High Dam itself. Another is the use of water stored by the dam to extend perennial irrigation to some two million acres of land, or about a third more than are perennially irrigated at present, and including 1.3 million acres not now irrigated at all. The third element is the installation of a large hydroelectric power plant, along with the necessary distribution facilities, which will more than double the present supply of electricity and help the continuing growth of industry in Egypt. *(Size of reservoir - note on Mr. Bladis speech copy)*

The Bank was informed late in 1952 that the Egyptians intended, if possible, to carry out this project. I myself discussed it with the Egyptian authorities on a visit I made to Cairo as part of a general trip to the Middle East early in 1953. The Bank has been in close touch with the planning and preparation of the project since that time, and has been, ^{assistance} some/in that regard. Our own experts spent

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five months in Egypt in 1954 and 1955, making a detailed study. That study was carried forward by another field trip this past autumn, and was continued in discussions with representatives of the Egyptian Government who visited the Bank for a month this winter.

We believe -- as do private experts of international repute -- that the project is entirely feasible. Further, we estimate that when the project is in full operation -- which will not be for another 15 years or more -- the value of new agricultural and industrial production and of other benefits will within a short span of years be more than equal to the investment required for the project. *Note on Speech copy: This is the biggest single project ever to be carried on*

But in the meantime, the problem of financing is a large one. We began close discussions of this with the Egyptian Finance Minister in the Bank during November; and at the invitation of the Prime Minister, I went to Cairo two weeks ago to discuss it further.

The estimated cost of the project and ancillary works is \$1,350,000,000, of which some \$400 million represents private investment. Our discussions centered on the balance -- \$950 million -- which will take the form of government expenditures. In line with the Bank's usual practice, the Egyptian Government will take the responsibility for \$550 million needed in Egyptian currency for local labor, services and materials. That leaves \$400 million needed in other currencies for equipment and services that will have to come from abroad.

I felt that of this amount the Bank could lend half, or \$200 million, but that it would be necessary for the Egyptian Government to find elsewhere the remainder of the foreign exchange needed. Before I went to Cairo, the American and British Governments had offered grant funds of \$70 million -- enough, it is estimated, to cover the foreign-exchange costs of diverting the Nile from its *Copper dam* bed and completing the foundation of the Dam. The two Governments also indicated

that they would be prepared at a later date, in the light of the then existing circumstances, to give sympathetic consideration to financing the later stages of the project, as a supplement to Bank lending.

The position of the two governments, however, was contingent on lending by the Bank. At the invitation of Colonel Nasser, I therefore went to Egypt to discuss with the Prime Minister himself the circumstances under which the Bank would be willing to participate in the financing of the project. Most important, it was necessary to know whether the Egyptian Government was determined not only to give the necessary financial support to the project, but also to budget other public investment prudently and with foresight, so as to avoid bringing the project -- and, indeed, the economy of Egypt itself -- into jeopardy. During my visit to Cairo, the Prime Minister and I reached an understanding which was satisfactory to me.

Now I can hear some of you saying that it does not make sense to be putting up money for an undertaking that surely will have as one of its results the increased production, among other things, of cotton and rice -- commodities already in surplus in the United States and in other producing countries. But I believe this is a seriously mistaken view.

Why? Because it assumes that the only way to solve the problem of surpluses is to limit production. It assumes that the world already has enough farm products to keep itself decently fed and clothed -- an assumption that is clearly untenable. It assumes, moreover, that the world economy will never be, and can never be, any larger than it is now -- and this, too, flies in the face of all reason.

In Egypt itself, by the time the High Dam project is fully in operation 15 years or more from now, there will be nine to ten million more Egyptians than there are today, and they themselves will be pressing a larger claim on what Egypt

produces. At the same time, there will be 35 million more Americans pressing demands on the American farm economy. And in the world at large, there will be half a billion more people for the world economy to satisfy.

To say that there are world surpluses of some commodities, then, is to view only the top of the iceberg, for there is a good deal more to the situation than that. Even in an immediate sense, another part of it is that there are surpluses, not because there is no need for what is surplus, but because there are too few customers to pay for it. And in the not too long run, the danger is at least as likely to be one of scarcity as one of surplus.

Now, the development of production and of earnings -- agricultural and otherwise -- is a way to mitigate the problem of scarcity, and it is a way to develop paying customers. That is one of two compelling reasons I can see for the economic aid which the United States, and for that matter, other developed countries, are giving to less developed countries today.

A good many other reasons are put forward, both for and against, economic aid. Most of them, I think, confuse rather than clarify the issue. We hear it said, for example, that such massive amounts of aid are needed that to satisfy them would work serious damage on the American economy. I just do not believe that. It assumes that everything can be, and must be, done at once. But the fact is that the rate at which the underdeveloped countries can absorb new capital is limited; and that the number of useful projects on which public funds can be properly and effectively spent is far from infinite. The danger, in my opinion, is not that we shall try to do too much, but rather that we will find it possible to do too little.

We also hear arguments in favor of foreign aid, on the grounds that it is a useful tactical instrument, both in commerce and other spheres of international relations. It is sometimes thought, for instance, that aid offers a convenient

way to dispose of surpluses. But the matter is obviously not so simple as that. In a situation when the world supply of some commodities is in surplus, to force excess production onto world markets may undermine the export position of some of the very countries we are trying to help by other means; and it may complicate rather than assist our foreign policy -- of which, after all, economic aid is only one part.

Perhaps the most popular argument of all is that economic aid is valuable because it can win friends for the United States and the democracies of the west. This kind of thinking in the past has already kept aid from being effective as it might have been, because it has emphasized the act of giving -- or in some cases, of lending -- at the expense of careful attention to the study and selection of projects for economic merit.

On the recipient side, too, the friendship theory has not infrequently had unfortunate results which were quite the opposite of those intended. It has encouraged a supplicant attitude on the part of some underdeveloped countries, and has made it quite logical for them to feel resentment when one of them does not receive as much aid as some other. And in a few cases, the notion that American aid was intended to buy their favor has caused underdeveloped countries to decline that aid altogether.

To follow the friendship theory to its logical extreme, moreover, would lead the United States and other western countries into a popularity contest with the Russians. In my personal opinion, we already have had enough experience to know that offers of Soviet aid may involve, as the farmer said of his cow, "More moo than milk." If we decided to give milk every time that Moscow moos, we would soon be dry.

After all, to believe that economic aid can win friends is to take altogether too simple a view of international relations; and I think we must always

remember the warnings of experienced diplomats that friendships cannot exist between nations in the same sense as it exists between one person and another. Indeed, if aid could win us friends in the sense that some people believe, the United States, after the expenditure of scores of billions of dollars since the war, already would be far and away the most befriended nation on earth.

What can exist between nations is mutual self-interest, based on geography, history and many other factors -- a complex in which aid can only be one part. I think that the United States, both acting on its own part and making the fullest possible use of international organizations like the Bank, can wisely and realistically support aid for economic development; and I think so because the United States itself will benefit from the growth in world production, markets and trade that economic development can help bring about. I think one important conclusion that follows from this is that the United States should give support to economic aid continuously, and not according to the rising or falling barometer of pressures in world politics.

I spoke a moment ago of two compelling reasons to support economic development. The second is that the course of development will become a more and more important factor in determining the kind of world we ourselves live in. The political and economic revolution that we ourselves helped begin in the 18th century is now beginning to march through many parts of the underdeveloped world. Wherever the revolution marches, we see political, economic and social institutions in the process of change.

The form in which these institutions begin to crystallize is of the utmost importance to us. In our days as a young republic we looked on the existence of monarchies as inimical to our own existence; in our own time, we have learned that Communism and other forms of authoritarianism can come into sharp and even armed conflict with our own ways of life.

Now, we cannot impose our institutions on other countries. But through aid to economic development we can help those countries to make a choice which they will consider to be in their own interests and which would run in our favor as well. Today in the underdeveloped countries, men are likely to think that they have a choice only between extremes --- between slow starvation and quick revolution, between poverty and planned economies; between hopeless inertia and disciplined obedience to political leaders who themselves may represent extremes.

Economic development and rising standards of living can help fortify men against extremes. Men who have faith in their own future and the future of their own countries are not likely to sell themselves short to demagogues or their country short to the kinds of foreign influence that would be inimical to us. In a better economic environment, there is a better chance for men to appreciate those values of freedom and democracy which mean so much in the west and so little in Moscow. If aid to economic development can help men prize and assert their independence, then it is something greatly worth doing. And if along with our aid we can demonstrate the validity of our own principles of freedom of individuals and of enterprise, then I think we are making some progress toward shaping the kind of world which we ourselves want. I think this is worth doing -- not reluctantly and hesitantly, but on a scale and with a constancy of purpose equal to the importance of the task.