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In these times any subject but defense may seem trivial by comparison. The defense of our country and of the free world will remain the topic uppermost in our minds and the paramount issue in our lives, for how long we cannot tell. And, next in importance to defense, I suppose we would put a fair sharing of the burden. That means many things: a vigorous campaign against inflation; higher taxes; price and wage control; allocations and rationing. But we must not let the weight of this burden and the importance of these issues make us lose sight of our responsibilities; it should only place them in a different perspective. It is one of these other responsibilities about which I wish to speak tonight - the economic development of the underdeveloped areas of the world.

On November 10th, shortly before the Korean war took so grim a turn, Mr. Gordon Gray's report to the President on Foreign Economic Policies was published. This, the first public document to gather together the loosely dangling threads of American foreign economic policy and weave them into a coherent pattern, is a document which deserves attention. Among other things, the report points out the importance of giving the underdeveloped countries a greater opportunity to raise their standard of living. It emphasizes the gradual nature of the development process and describes the obstacles which have to be overcome to accelerate it. And it reaches the conclusion that the United States, in its own self-interest, should make additional financial and technical assistance available to the less developed countries of the world. The order of magnitude of the annual dollar assistance

from other than private sources that the report recommends is \$500 million in grants, and \$600 to \$800 million in loans; of the loans, half or more is expected to be provided by the International Bank.

It would be a natural reaction to recommendations of this sort to say that what seemed good on November 10th no longer makes sense on January 10th. So far as the amounts are concerned, there may well be truth in this. But as for the principles involved, they were, in my judgment, never more alive.

Economic development, as a term, has been much in fashion recently. But, as a process, it is nothing new. In the last 150 years development has proceeded very rapidly in certain parts of the world, in Western Europe, in Japan, in the countries of the far south, Argentina and Uruguay, Southern Africa, Australia and New Zealand, and, above all, in North America. In these countries a high standard of living has been achieved and a large store of capital built up in spite of the great dissipation of assets in war, particularly the two World Wars. In the rest of the world, where three-quarters of its population lives, there has also been some progress. Millions of people have engaged in the production of commodities like tin, rubber, coffee and cocoa for the world market, which, however fickle it may have been, has provided a source of income much above their previous level of primitive subsistence. Ports, railways, power stations, whole new communities, have been built, partly to bring these commodities to market, partly to serve the general economies of these countries.

But progress has really touched only a fringe. As the standard of living of the world has advanced, the gap between the highest and lowest has widened. The bulk of the people in the underdeveloped countries are peasants, for most of whom the horizon is bounded by a small patch of land. And this land, as like as not, they do not even own, but work for another with poor and primitive tools. Or if they do own it, they are likely to be so in debt that it makes little difference.

They would have little incentive to improve the land, even if they knew how or had the means; but mostly they are illiterate. They live in small one-room huts, which, often, they share with their few animals. Their diet is deficient, their stamina poor and they are a prey to disease; if medical science has brought them benefits, they are two-edged, because every child that is saved, every old man whose life is prolonged, is another mouth to feed. The villages in which they live are often remote from the few main arteries of transportation; if they are on a road, it is frequently impassable in the wet season. Storage is rudimentary. Local plenty in one district can thus be quite compatible with local famine in another. In many countries the average income is no more, and is often considerably less, than \$100 a year. In many countries, too, the average life expectancy is little over 30.

There is another way in which the difference between the developed and the underdeveloped countries can be illustrated. As an example, I will take one country, India, the second most populous country in the world. A plan for the development of British Commonwealth countries in South and South-East Asia was recently published by the Commonwealth Committee. It gives some interesting figures. On a per capita basis, the United States uses nearly 200 times as much electric power as India and 100 times as much steel; on the same basis, our freight cars can carry 50 times as large a load and, if you take an instrument which is less fundamental, but nevertheless almost an essential with us, the telephone, the ratio is 700. The United States has actually somewhat more land under cultivation than India and, with only a tenth the number of people working on it, produces far more. Nor is this surprising when you consider that we have 250 times the number of tractors to work it with and use 65 times as much fertilizer. Much the same story, with variation upward or downward, can be repeated from one country to another. They all lack that system of public services on which must be based the great superstructure of a prosperous industrial - or agricultural - society.

Why this disparity should have arisen is disputed. Some on one side would claim superior thrift, industry and initiative; some on the other that the less developed nations have been cruelly exploited. Climate has been judged the villain of the piece. But this is a futile argument. The real question is how to prevent the disparity from widening still further.

As the task of development is to raise whole regions and sometimes whole countries out of their poverty and backwardness, heavy investment is needed in highways, water supply, storage, power, housing and, equally important, health and education services. All this requires capital, but as the capital available is at best limited, careful planning is necessary to obtain the best results. If development is undertaken haphazardly it stands little chance of success; it is normally necessary to draw up a program for investment for several years ahead. The projects in that program have to be chosen judiciously. Their timing must take account of the interdependence between them; it is no use double-tracking a railroad before the port is ready to receive its freight. There must be the right kind of training for labor and the professions; a surplus of lawyers will not make up for a lack of mechanics. The program has to be drawn with sufficient flexibility to meet unexpected contingencies.

The poorer a country is, the less it can afford waste and the more careful it must be to husband its resources and use them to the best advantage. Idleness, inefficiency and corruption can be tolerated least of all in a poor country. And so the most necessary forerunner of development may well be the kind of domestic action which costs hardly any money at all. Very often the tax system needs overhauling in order that the rich may bear their proper share of the burden. The power of particular labor unions may need curbing. The monetary system may need tighter control to prevent inflation.

Of all the reforms which we have seen to be desirable, reform of land tenure, however difficult to achieve, is probably the most important. The need for land

reform is widespread, because the whole basis of development is the land. Its effect on development might be remarkable, for, if people are freed from the deep-rooted conviction that, whatever they do, they cannot prosper by their own efforts, they may show initiative in far greater abundance than we suspect they possess. It is not without significance that land reform is one of the main planks of Communist propaganda.

Unfortunately the influence of special interests in the underdeveloped countries and their resistance to reforms in the general interest are certainly as strong as they are in the more developed; such vested interests are often very well entrenched. This is another reason for having a well-concerted plan of action. If particular groups are to be ranged on the side of the general interest, it is necessary to show them what the general interest is and to obtain the widest support for it.

In all these matters the governments of underdeveloped countries require tactful but firm support, for the best course is not always the most immediately popular and politics may bedevil the whole conduct of development. The Bank, in its operations, has tried to give this kind of support. We have constantly urged the underdeveloped countries that they draw up a sound program of investment and that they formulate and put into action the economic policies necessary for its fulfillment. We have sent missions to a number of these countries, in some cases to investigate particular sectors of their economies such as agriculture, in other cases to take an inventory, so to speak, of the entire country's resources and needs. It is our hope that the work of these missions will help the countries they have visited to plan their development programs efficiently and to obtain for them widespread and non-partisan public support.

A program is not, of course, enough; it has to be financed. With their small stock of capital and their low income, it is clear that the underdeveloped countries could progress only gradually if they had to rely on their own savings alone,

however wisely they might be invested; it would take decades to make a sensible impression on their poverty. In fact, in countries where the population is increasing rapidly, it would be all they could do to prevent the standard of living from falling. In order to accelerate the process of development, these countries require capital from abroad. There is hardly a case in the past where the early stages of a country's development have not been carried out with the help of foreign capital; and almost always private investors provided the funds. Some capital was obtained by selling bonds, but there was also a large contingent of equity money for development. Private companies built and operated railroads, ports, waterworks, electricity systems; they developed land. The equity stockholders took risks. Some got quick and lucrative returns, many others never saw a dividend. Today, for reasons which I will not go into here, that kind of equity money is not forthcoming, not at any rate for the public services which are needed as the basis of expansion.

But there is still the same kind of risk in the development of the more backward regions, which sometimes means whole countries. It takes time, usually a long time, for the very large investments which have to be made to bear fruit. During that time the country will receive little additional income and may at the same time be paying interest on borrowed money. In fact, some investments may never bear fruit. Human planning will always be imperfect, depending as it does on numerous unknown quantities. We sometimes tend to forget that development depends on human beings, whose behavior in very different conditions cannot be forecast. If past experience is any guide, some peoples can become adept in agriculture, commerce or industry in a remarkably short time, while others seem to resist change. That is one kind of risk, perhaps the most important one. Another is the economic risk. Even if people respond to education and opportunity and become proficient, for example, in some branch of agriculture, they may one day find their livelihood menaced. Their crops may be attacked by unanticipated disease. The development of substitute

materials may cut off the demand for their product. Or conditions elsewhere in the world may be found to favor production at much lower cost. The history of commercial agriculture is studded with examples of unforeseeable shifts of this kind. And similar considerations apply to mining, industry and even transportation. But all these risks have to be taken because the price of doing nothing may be perpetual stagnation.

In the past few years the Bank has been able to assist a number of the underdeveloped countries by making loans for a variety of purposes. Let me give you a few examples; building new power capacity to overcome shortages in the industrial regions around Sao Paulo in Brazil, around Mexico City and in the Damodar Valley near Calcutta; post-war rehabilitation of the railroads in India and Thailand; dredging and re-equipping the port of Bangkok to save costly lighterage and manual handling of freight; building storage facilities in Turkey to stop the spilling and spoilage of grain. By and large, these projects have had a clear and well-defined objective. They were obviously highly necessary and they should have an almost immediately beneficial effect on the economies of these countries; indeed, some already have had.

But the International Bank is, after all, a bank; the amount it can lend is limited by the prudent regard it must have for the prospects of repayment. For many countries the limit is high enough to permit development to proceed at a reasonable rate. But for others, the limit is very low and there is little prospect of raising it, not at least with any speed, because the kinds of investment they need are the ones that yield slowly and carry a considerable risk. We must frankly face the fact that these countries cannot perceptibly accelerate the rate of their development if the only capital which they receive is in the form of loans which have a reasonable prospect of repayment.

It has sometimes been suggested that this problem should be met by providing capital in the form of very long-term low interest rate loans. Such loans can, of

course, only be made by governments. Because such loans, in form, appear to provide for a tangible quid pro quo which can be written down as an asset, it may be easier to secure legislative approval for them than for outright grants. But the very fact that these loans are made on especially easy terms and are still called loans should make us suspicious. Although easier terms reduce the element of risk, they do not come near to eliminating it. And so, in the end, although some loans will turn out well and will be repaid, others will bring in their train, first, severe strain on the economy of the borrower and, finally, default. When this happens, there is likely to be ill will, rational and irrational, on both sides. The lender will resent the default on a loan made in good faith. The borrower will resent the years lost in abortive struggle to maintain payment on a debt, which he probably regarded in the first instance more as a promise of prosperity than as a serious financial obligation. The effect of such defaults is to destroy credit generally and to atrophy the integrity of all orthodox lending. In my opinion, where you have a choice between grants and fuzzy loans of this kind, it pays in the long run to make grants.

I have described to you in somewhat oversimplified terms, what the task of economic development means. It will need the whole armory of the advanced countries to attack it, loans and grants, technical assistance and private investment. And these weapons must be used in combination, not piece-meal, in order to ensure that all the resources of the underdeveloped countries are used as effectively as possible. Their governments need encouragement and support if they are to do their part of the job, which is the main part, with the firmness and boldness that is required. We would invite waste and frustration if loan funds from the Bank, for example, were made available to a country according to one plan, grants or loans from another source according to a different plan, and technical assistance without regard to either. And that, I am afraid, is what is likely to happen if a strong effort is not made to coordinate our forces. Indeed, it is already happening.

But, when all this has been said, there still remains the question whether at this juncture the United States and the other industrial countries of the world can afford the money, which of course means the goods which it would buy. The governments of these countries know the magnitude of the defense effort they are undertaking, what can or cannot be released for other purposes. I shall not be so presumptuous as to argue about that. But I would say that when this has been decided, very serious thought should be given to the disposal of the residue. Our national income is so large that, even after a very large defense effort, the residue would still provide a tolerable living for civilians. We do not know the meaning of austerity -- not yet. Compared to this residue, amounts which would make a very great difference to the underdeveloped countries would not affect our standard of living in any serious way, although they might cut into our indulgences a little.

I know that, in comparison with the outset of World War II, there is little slack to be taken up in our industrial machine. There is, however, leeway in agriculture, where output can still be increased considerably. And, although industrial equipment is needed by the underdeveloped countries, they can use food too, because wheat for the workers is one of the raw materials for any kind of construction. Do not mistake my meaning. I do not say this or that item can readily be exported in any particular quantity. All I say is that we should give serious consideration to the possibility. My hunch is that there might be a very useful amount to spare.

There is one thing that I would like to emphasize at this point. If we are going to spare that "useful" amount, we must make sure that it is, in fact, employed usefully. In these times, least of all, there is no excuse for waste. We cannot afford to make gifts as a gesture, which will do no real good to the recipients. In other words, we must be sure that anything we make available is devoted to well conceived productive projects and that these projects are also well executed.

And if we can afford something, why should we take the trouble and bear the additional sacrifice? To this, I think there is a simple answer. We are bound to do it, because it is in our own self-interest, because it is the only action consistent with the basic principles which the Western World is striving to maintain. Of course, there will be those who will cry "Operation Rathole" and will ask how many divisions we are going to get out of it. To this I would say that we may get no divisions. But if we do nothing, we may see an even greater multitude of divisions against us and important sources of raw materials cut off. Certainly the lessons of recent years have emphasized the truth that aggressive Communism breeds on poverty, misery and hopelessness. A relatively small expenditure now to raise standards of living in the less developed countries and to offer the hope of a better future to their peoples may save us much greater sacrifice later on.

There is another answer, too, and that is that assistance for development to backward areas is the only action consistent with the basic principles which the Western World is striving to maintain. We speak with pride of the vast industrial machine that the American people have created and the high standard of living we enjoy. But it is not, in the main, the American people living today who created our prosperity. It was our fathers and forefathers. They left us an inheritance and we are in a very real sense the trustees of this inheritance. Our stewardship must be wise and just, for it is not only a material but also a spiritual inheritance. I trust the American way of life that we are fighting for is not just the enjoyment of the material half of the inheritance, because, if it is, it will crumble from within for lack of moral fibre.

What can we offer the people who live in the underdeveloped countries in conditions such as I described earlier, conditions which to us are barely conceivable? Should we merely offer these people, who often achieve a dignity in life which we might envy, a sermon on the benefits of democracy and free enterprise and ourselves

as its prime example? To them, democracy and free elections are meaningless; government is the local tax-collector. And the concept of free enterprise is equally unintelligible unless it means giving them a decent plot of free unencumbered land, sufficient tools and working capital to work it, instruction in how to improve it and credit at a reasonable rate to take advantage of that instruction. And to get them this, we have to put as much physical effort and moral force to work as we can.

Eighty-eight years ago, at another time of crisis, Abraham Lincoln said: "The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise with the occasion. As our case is new, so we must think anew and act anew. We must disenthrall ourselves, and then we shall save our country". Today not the Union, but the free world is at stake. If we do not rise with the occasion, we shall fall with it, and we shall fall very hard.