5/7/56 - 50 c
5/14/56 - 25 c
8/15/56 - 25 c
1/11/57 - 25 c

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

7/11/57 - 350 c.
10/2/57 - 500 c.
2/26/58 500 c.

FOR THE PRESS
HOLD FOR DELIVERY

Expected at 9:30 P.M.
May 8, 1956

Address by Eugene R. Black
President of the World Bank,
at the Annual Dinner of the Connecticut Chamber of Commerce
Hartford, Connecticut
May 8, 1956

... I want to talk with you this evening about the underdeveloped areas of the world. I chose this subject not only because of the work of the World Bank in these areas, but because I think America's attitude toward the problems of the underdeveloped world is going to be an increasingly important factor in the fight of free men to withstand and throw back the incursions of Soviet Communism.

The fears and hopes of the refugees living in squalor on the outskirts of Karachi and New Delhi, the yearnings of farmers scratching out a poor existence in Guatemala and Nicaragua, the dreams of the slum-dwellers in Baghdad and Beirut -- the aspirations of all these people are no longer of just local or regional importance. They have a relation -- a very direct relation -- to the realization of our own American dream.

As we look at the free world today, we must be struck by the fact that underdeveloped countries constitute at least two-thirds of it. Only Western Europe and North America can be described as developed areas, where adequate use is being made of natural resources and human talents, ~~and where, as a result, life can be lived in some dignity and reasonable material comfort.~~

In these respects, our Atlantic Community is an island, less than half a billion people surrounded by more than a billion whose life has

scarcely been touched by the material benefits of 20th century civilization. On this side of the Iron Curtain, a thousand million people are living with half the diet, a tenth of the doctors, a tenth of the schools, a tenth of the income that are standard in the United States. For hundreds of millions of them, life expectancy is less than 35 years — or about the same as it was in our thirteen American colonies two centuries ago.

This is certainly not the fault of the United States, and this country certainly has no obligation to do anything about it. For my own part, I am not one of those people who believes that we owe the world a living. But I do think it is very much to our own interest to do what we can, on an intelligent basis, to promote economic development in the rest of the world. Let me state why I think this is so.

Development abroad will enable foreign nations to produce the goods and services that can make them active trading partners, rather than supplicants for goods and services which the United States, in one way or another, has been giving away free. Development abroad will create and strengthen markets for goods produced in the United States and the rest of the Atlantic Community. It will develop resources of primary materials which are vital to our industrial economies. Finally, I think economic development is one of the keys to stability and peace in the world.

Let me return to one or two of these points. In recent decades, export markets, by and large, have not been important to the American economy. They absorb only a small amount of our national product, and account for only a fraction of our national income. But this picture is changing.

Since 1940, there has been an enormous growth of physical plant in the United States. The physical volume of industrial production has nearly

doubled, and the basic trend is still running upward.

America's capacity to save, to invest and to produce is so great that in many industries we have already reached the point where capacity is more than enough to meet the demands of our own market. That capacity, if it is to be used, will have to be used for customers abroad. I am sure that you are keenly aware of this problem here in New England, where one job out of every nine, I am told, already depends on exports.

Developed countries, as you surely appreciate, are better markets than backward ones. Let's take an underdeveloped country like Ethiopia. Here is a country rich in natural resources. It has just about the same population as New England, and about five times the territory. But on a per capita basis, its purchases of American goods amount only to about 50 cents a year.

Contrast this with Belgium and Luxembourg. These two countries also have about the same population as New England, crowded into one-sixth as much land. But they are highly developed countries, and they import American products at a rate of nearly \$30 per capita per year.

In terms of export prospects, it surely is obvious that the United States would be better off in a world in which there were more \$30 countries than there are today.

There is a second aspect of our relations with the underdeveloped countries that is of increasing importance to us. Over half the things we import come from those countries. They include such indispensable items as tin, copper, lead, manganese, bauxite, cobalt and zinc. Although we are the world's greatest industrial producer, we mine within our own borders only about one-third of the number of basic materials we need. And as our

industrial production mounts, our factories will grow more and more hungry for some of the things they must have from abroad to keep going.

So, whether we like it or not, we must take an increasing interest in the development of raw materials production abroad. Here again, I know that a keen awareness of this problem must exist in New England, where a substantial part of your requirements for fuel, and for raw materials needed by such industries as your metals industry here in Connecticut, must come from abroad.

But, if Americans are seriously interested in increasing trade and in making the most use of productive capacity, they must actively help to increase production abroad. Most of your production in Connecticut is for a high-income market. You are not going to sell your metal products, your machine tools and your other finished goods more extensively in the underdeveloped areas unless the people of these areas have the money to buy them. And they are not going to have the money to buy them without more production, more earnings and more savings of their own.

An important avenue -- and potentially a wide one -- to increasing world commerce is to put more investment into productive facilities overseas. This kind of investment, of course, is the World Bank's principal business. 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; they are poor 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 mechanization. Finally, we have lent about \$140 million for programs of development embracing projects in several or all of these basic fields.

Connecticut products, I may say, have been sent all over the world to play their part in projects financed by the Bank. Our borrowers have needed them, for instance, for electric power installations in Chile, Finland, India and Mexico; for farm development in Paraguay and Pakistan; for railway improvements in Brazil and Colombia; and for air transport in Australia.

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 nearly \$30 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 \$850 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 18 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.

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 our projects with a great deal of care. I am not going to describe the process in any detail; I would rather tell you what the loans are helping to do.

In Iraq a couple of weeks ago, young King Faisal dedicated the Wadi Tharthar project for turning the floods of the Tigris River away from the city of Baghdad and the surrounding farm area. In 1950, we had lent the Iraq Government \$12.8 million for the equipment and engineering services that were needed to construct the scheme. The project will save Iraq some \$4 million a year that the Government and individuals have spent, on the average, for levee construction and disaster relief; and it will prevent damage which as recently as 1954 amounted to an estimated \$80 million from a single flood. And the Bank has its money back already; after the project

had been well advanced, Government oil revenues had increased so much that half the loan was cancelled and the other half was repaid in advance.

Or take the case of Gwelo. This is a town sitting on a mile-high prairie in the center of Southern Rhodesia, and it is a symbol of what the Bank is helping to accomplish in a young and growing country. The town is at the center of the Southern Rhodesian railway system, to which new equipment is being added with the help of Bank financing; and it is near the start of an entirely new rail line, built under a Bank loan, that connects to a new seaport on the Indian Ocean. More than that, Gwelo is close to a new power plant of some 120,000 kilowatts generating capacity -- one of several plants that has been built with Bank help.

The town is a bustling place of some 30 thousand people. It is the headquarters of engineering and construction companies; its factories make chemicals, shoes, leather goods, razor blades, steel castings, concrete and many other products. All this is happening where only a few years ago there was a settlement of only a few hundred people -- and Gwelo may be said, almost literally, to be the creation of electric power and transportation.

When the Bank lends for electric power development, it usually lends for sizeable projects. But in Mexico, we have lent for over 50 power installations, many of them quite small, and some of the most vivid examples of what electricity can do for progress are to be found among these small projects.

One of these installations was a generating plant of some 2,700 kilowatts capacity in the town of Ciudad del Carmen, a shrimp-fishing port on the Gulf of Mexico. This was Carmen's first dependable, 24-hour-a-day

electric supply, and presented the first opportunity to make enough ice to fully protect the shrimp catch from spoiling. Nine deep freezing and ice manufacturing plants have now gone up in Carmen. A large shrimp canning factory has been built and is operating at a profit. Seven small yards have come into operation to build more fishing boats. Two years ago, only an occasional tramp steamer called at Carmen to pick up shrimp -- today, modern refrigerator ships provide regular service from Carmen to Texas ports. Furniture plants and other small industries have begun to spring up. This town, which three years ago was almost literally in danger of drying up and blowing away, is now a busy and growing community. That is what a little electric power and a lot of private initiative have been able to do in Carmen.

An even smaller project, in this Mexican group, was the installation of some 600 kilowatts of generating capacity in the town of Tecuala, on Mexico's west coast. The plant began operating in 1951. At the same time, a paved road arrived to give Tecuala a better connection with the surrounding farm country. The sequel to these two events was little short of explosive.

In the next three years, the population of the town grew from 5,000 to 13,000. The number of children in school increased seven-fold; and for the first time, the adults of Tecuala, many of them illiterate, were able to have a night school. There is power now for the hospital and its first fluoroscope. The new electricity is powering two movie theaters, the town's first radio station and the presses of its first newspaper. The number of small factories and processing plants has grown from three to more than 30. Among other things, Tecuala now makes ice, corn meal, shoes

and furniture. The community is making more, earning more, and is much better able to satisfy its hunger for products from the outside world. To cite only one instance, there are today more than a dozen stores selling electrical appliances, as compared to none five years ago; and Tecuala is now a market for electric fans, electric irons, radios and refrigerators. The mayor of the town sums up the whole story well when he says, "We have come out of the dark ages into the light."

Now let me switch from these small projects to a very big one -- the biggest ever to be considered in the Bank, and the biggest of its kind, in fact, ever to be planned anywhere. I am referring to the High Dam which the Egyptians intend to build at Aswan, near the first cataract of the Nile. The Dam would be nearly 400 feet high, ^{one}~~three~~ miles ^{at the base} thick, and ~~five~~^{three} miles ^{long}~~wide~~, and would be 17 times greater in volume than the Great Pyramid of Cheops. The Dam would store enough water to inundate the entire state of Rhode Island, in a snake-like reservoir long enough to stretch from here to Richmond, Virginia.

As some of you are aware, the project actually 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.

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 our own experts spent five months in Egypt in 1954 and 1955, making a detailed study.

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.

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 Col. Nasser, the Prime Minister of Egypt, I went to Cairo earlier this year 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 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.

The World Bank is not interested in projects only. It is even more interested in whether the underdeveloped countries are themselves making the most of their own opportunities. 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.

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.

The Bank, as I said, is an international institution. But I believe that it is serving your interests and the interests of the United States. It is helping to create production and earnings in the underdeveloped world, and it is helping to create paying customers abroad for communities like yours.

In Washington, Congress is now considering the Administration's proposals for the continuation of economic aid to countries abroad. Without commenting specifically on those proposals, I want, from the vantage point of our experience in the Bank, to offer some remarks about reasons that are put forward both for and against economic aid. Some 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.

On the other side, the most popular argument in favor of foreign aid is that it can win friends for the United States and the democracies of the west. This, too, seems doubtful to me. This kind of thinking in the past has already kept aid from being as 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 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 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. The right kind of program can mitigate the problem of scarcity overseas, and it can at the same time build markets for industrial nations like the United States and industrial communities like Connecticut. 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.

There is, to my mind, just one other compelling reason to support economic development. It 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 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.