

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Rist, Leonard B. - Articles and Speeches (1950 - 1971) - Volume 02

Folder ID: 1654508

Fonds: Records of Office of External Affairs (WB IBRD/IDA EXT)

Digitized: March 10, 2014

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

RIST, LEONARD B - ARTICLES and SPEECHES (1954-1961)

RETURN TO ARCHIVES IN MC C3-120

ISN # 119521 ACC# A1992-007

BOX # 15

NUS LOCATION 475-4-5

The World Bank Group
Archives



1654508

A1992-007 Other #: 15 Box # 212060B

Rist, Leonard B. - Articles and Speeches (1950 - 1971) - Volume 02



DECLASSIFIED
WBG Archives

FINANCIAL PROSPECTS IN EUROPE

Address by Leonard B. Rist

*Director of the Economic Staff of the International Bank
before the Conferences for Corporation Executives
sponsored by the Foreign Service Educational Foundation
in cooperation with the School of Advanced International
Studies of the Johns Hopkins University*

Washington, D. C.
May 5, 1954

Mr. Chairman, Gentlemen,

My purpose here is not to review the history of the financial problems raised by the reconstruction of Europe, but rather to give you my personal opinion of the financial prospects of the Western European countries viewed in the light of present conditions. By financial prospects I mean both balanced internal finances and equilibrium in external payments. These are two aspects of one and the same thing: monetary stability. My views can be summarized as follows:

In the first place, it seems to me that Europe has been cured of "inflationism". Stability has now been restored in most countries. In the second place, the dangers which still threaten stability are mainly the need to find a proper balance between two inevitable burdens: investment and armament expenditures. To meet these expenditures Europeans must call on credit. In many respects then the problem today is more how to restore and develop savings and revitalize financial markets than how to restore stability.

Thirdly, I am personally hopeful about the future, unless of course a world catastrophe of a political and military nature should occur.

Let me take these points, one after the other.

I.

A friend of mine recently made the point to me that there were two kinds of inflation: one was inflation proper, or that usually due to inevitable pressures such as war or reconstruction. This type can be halted when these pressures come to an end. The other kind, he called "inflationism", meaning the complacent attitude of

citizens or governments who see prices rise and currencies depreciate, and enjoy the stimulants resulting therefrom, making no attempt to check them. It is quite apparent that while there may still be inflationary pressures in Europe, "inflationism" is dead.

The rather dramatic restoration of the currency in Germany has tended to overshadow a number of monetary reforms in other countries which are equally remarkable. Holland, for instance, shows a constant increase in its monetary reserves; it has even reached the stage where it can relax import controls, including discrimination against dollar imports, and monetary controls, including obstacles to movements of capital at least within Europe. Holland, a constant debtor at the beginning of European Payments Union, is now showing consistent surpluses in its transactions with Europe. This has been achieved largely thanks to a series of budget surpluses, accompanied by intelligent and energetic credit management. Now that the monetary market is well in hand, as a result of many years of continuous effort, the Netherlands seems to have reached a degree of stability and solidity, financially speaking, which is comparable to that prevailing in Belgium. As evidence of this there is a conference now under way studying the possibility of establishing a common trade and payment policy and of freeing capital movements between the two countries.

Belgium, as you know, has been considered for the last nine years, financially speaking, the strongest country in Europe next to Switzerland. It had suffered less destruction than most other countries; it benefitted by substantial accruals of foreign exchange immediately after the end of the war --- and this on top of a stringent monetary reform. Its main products, such as steel, were

so much in demand for reconstruction purposes that it had a considerable trade advantage and was until recently, a consistent creditor in the European Payments Union. Its monetary policy remained remarkably conservative throughout. Its current budget was regularly in balance and investment expenditures were allowed to reach only the amount which could actually be financed out of borrowings from sources other than the Central Bank. This allowed Belgium to devalue by only 13% in 1949. Belgium has also practically abolished import restrictions and discrimination against dollar imports.

The tremendous influence of internal monetary policy on external payments has been demonstrated anew in 1953 by Austria. Ever since the war, Austria has leaned heavily on foreign aid and had undergone several currency devaluations. Last year, however, it tightened up severely on credits and great restraint was shown in the nationwide wage agreement between industry and labor unions. The result was a surplus in the balance of payment of Austria with EPU. This is all the more remarkable as Austria used to export very largely to the Danube basin and now has been obliged to redirect its trade toward the West. This difficulty was considered so great that EPU had long regarded Austria as a permanent balance of payment problem-child or, in EPU jargon, a "structural debtor". The history of Austria in 1953 is, in itself, a demonstration that there is no such thing as a "structural debtor".

More recently, in Greece, comparable developments took place. Greece also had been classified as a so-called "structural debtor". Last year stringent budgetary and monetary measures were taken and, after a 50% devaluation, exchange controls were practically abolished.

The reserves of the Bank of Greece, like those of the National Bank of Austria, have been on the up-grade ever since.

Italy, like Germany, had been plunged into terrible chaos at the end of the war. The disorder in internal transactions was so great that the monetary and credit reforms introduced by President Einaudi when he was still Minister of the Budget in 1947, have continued to have strong popular support ever since. It was possible for the Italian government to take the risk of shocking the country into stability. Interestingly enough, this has been done without completely balancing the budget; the government still has a substantial deficit (around 28% of expenditures until last year, some 20% now). But control over bank credit has been so well managed that individual business requests have taken second priority to the government's. The government thus has financed its deficits out of genuine savings and monetary stability was in fact attained before the devaluation of 1949 and has since been preserved.

France had not gone through such a chaotic period as Italy or Germany and inflation was continued for a longer period, largely due to the need for financing Treasury deficits for reconstruction and modernization purposes. But since Mr. Pinay came to power at the beginning of 1952, stability has been the rule; prices have stopped rising and the free market for gold and foreign bills has collapsed. In other words, the budget deficit, which still amounts to around 15% of expenditures, has had no inflationary effects. American aid and a slight slowing down of business have, of course, had an influence in this respect but, at the end of 1953 and the beginning of 1954 when business picked up, prices still remained

stable. This is, to my mind, largely attributable to a slowing down of the velocity of money, or -- as one used to say thirty years ago -- to the return of confidence. I shall revert to this concept of velocity a little later.

Britain, as you know, has been able to achieve stability also. Its now famous austerity policy, together with a very reasonable attitude on the part of the banks which did not expand business loans, have prevented rises in prices since 1951 after they adjusted to post devaluation and Korean boom levels. Foreign trade has expanded and the pound is in effect becoming a scarce currency. True, England keeps import restrictions hardly less drastic than France and continues, with the rest of the sterling area, important discriminations against dollar imports. But the improvement in its position has allowed the United Kingdom to reopen some international raw material markets, to give access to the transferable sterling system to a number of countries, and to reopen a gold market in London.

As a record of achievement, this list is fairly impressive. It ought to be added immediately that this is not entirely due to internal efforts: foreign assistance, in particular United States assistance, has been a considerable factor. Since V-E Day, U.S. economic aid has meant nearly \$7 billion for the U.K., 5 for France, 4 for Germany and 2.5 for Italy. This is recognized in each and every one of these countries. At present this economic assistance has considerably declined. There is of course extensive military aid. But this does not consist of a simple addition of American resources as did economic assistance. A large part of military aid makes dollars available from the U.S. government for purchases

made in these countries for export, or represents payments by the American military establishments for services rendered or goods delivered to them on the spot.

An interesting point should be made here: international movements of capital have been overshadowed by the tremendous amounts granted or loaned by the United States; they have, nevertheless, continued and within certain monetary areas, quite considerable movements have taken place. London, for instance, has exported capital, in particular to the Commonwealth, in an amount which is of the same order of magnitude as the American aid received by Britain. The reconstruction of the United Kingdom was thus almost entirely achieved out of its own resources. But the U.K. had the foreign exchange benefit of receiving additional dollars without corresponding exports to the dollar area.

In a similar fashion, France has exported capital to its overseas territories. Quite aside from the cost of the Indochinese war, France has probably reexported to the rest of the franc area resources equivalent to about one-fourth of the American aid received by it. This is in keeping with the intent of American foreign economic policy, which was to assist not only the metropolitan territories devastated by the war, but also to maintain the economic links existing between England and France on one hand and the developing territories of the world with which they have close ties.

Holland had the full benefit of American aid after the cessation of the Indonesian conflict. Most other European countries received both the resources and the foreign exchange arising from American aid and could reap the

full benefit from them. It is impossible to appraise the extent to which a "leak of resources" to dependent territories or associated countries has constituted a burden to England and France as compared with the other Western European countries. But it is probable that the rate of recovery has been hastened when the country receiving aid did not have to pass on part of the benefit to others.

Another international factor which has contributed to consolidating the financial position of Europe is the considerable decline in international raw material prices which followed the Korean boom. It will be remembered that in 1952 there was a let-down in production in Europe. But by the end of 1953 a pick-up was noticeable while the terms of trade of Europe were, on the whole, improving. This has had two results: in the first place in most countries the money supply has expanded further, but without bringing about a rise of internal prices. If world prices had been on the upgrade, it is probable that the monetary expansion which took place in France, for instance, would have had inflationary effects. The fall of world prices, however, allowed French monetary expansion to be a factor of stability or anti-deflation. The other result is that competition between European countries for export markets has become keener and keener and this directly affects the position of American exporters which had been until recently almost unchallenged. This is, in fact, a return to normalcy.

II.

This encouraging picture is, however, not without some shadows. The European countries are now confronted with a return to normalcy in world trade, including hard competition, and, in addition, to the need for high armament expenditures. The return to normalcy involves the danger of stagnation in levels of income. It is true that all the countries, including Germany, have achieved levels of income which are higher than before the war although consumption has increased less than overall income. But for two reasons European countries cannot interrupt investment: (1) they must maintain employment and (2) they must make possible future growth of income and improve productivity to compete internationally.

The unemployment aspect cannot be neglected. Reconstruction and modernization have created jobs for a great number of people. The workingman has been accustomed to what the economists like to call "over full-employment" -- that is, overtime and overtime pay, labor shortages, numerous work opportunities. In a climate of inflation this is almost normal unless you have structural conditions such as those prevailing in Germany and Italy, where refugees or an overabundant land population reach figures of millions. Now stabilization brings about an elimination of numerous activities fostered by the expectation of rising prices, high profits disappear, efficiency and economy again become fundamental. Over full-employment is bound to give way to some readjustments in production, and unemployment again becomes a threat. As long as it is just a restoration of a healthy mobility of manpower through which workers can be attracted into the more profitable endeavors, no harm is done. But

usually these developments are more stringent, for a period at least. In the twenties, each country which underwent a currency reform experienced a "stabilization crisis". The British crisis actually lasted until the middle thirties. The 1952 slow-down in production in Europe was not only the result of the world textile crisis, it was undoubtedly a widespread stabilization adjustment. On top of this came a slow-down of economic activity in the U.S. In fact the decline here has not affected Europe and the last six months have been a period of renewed economic progress in Europe. It is hard to believe, however, that a continued downward trend in the United States would remain without effect on the other side of the Atlantic. But even if the possible U.S. influence could be disregarded, the return to normalcy means for all countries, not only the U.S., that the stimulus arising from reconstruction and increased armament expenditures will tend to decline. In other words, what makes stability more easy to achieve is the very thing that makes unemployment more threatening. This is one of the reasons that efforts will have to be made to maintain investments.

The other reason, of course, is that for income to grow tomorrow, investment must be made today. True, it is probably not necessary to maintain the exceptionally high level of investment which reconstruction has made necessary and which the Marshall Plan has made possible. But conversely, new investments will not yield the same high returns as those made for reconstruction. At that time, it was a matter of loosening up bottlenecks, today each investment is an addition in an already functioning economy. Furthermore, some investments, while improving the standard of living, contribute little to the productive capacity of the country. This is true in the

case of housing, a predominant need in France, Germany, England and Belgium. It is inconceivable that Europe should voluntarily let its rate of investment decline much more.

With the cessation of American economic aid, the problem of financing investment has become uppermost. Unless it is financed out of genuine savings, that is to say taxation or borrowing from other sources than the Central Bank, new investment implies monetary expansion and inflationary pressures. The consolidation of confidence in the currency is therefore the greatest problem for all Western European countries. Without long-term confidence, bond issues are impossible. Savings by existing business through reinvestment of earnings has been encouraged and takes up a large share of the burden. But to the extent that prosperous business retains its earnings and does not distribute dividends, it makes money savings on the part of individual shareholders that much more difficult, and as a result government or private borrowings have a smaller cash basis to rely on. Savings habits are, however, difficult to restore when consumption needs are heavy and overriding, as they were in the first post-war years. They are, furthermore, impossible to restore except for business savings, as I said before, in a period of unstable currency. The first step is of course to deter citizens from spending currency more quickly than they actually need to. The temporary acceleration of the use of the currency which accompanied active inflation disappeared with the establishment of stability. As I pointed out at the beginning, velocity of money has tended to decline.

But before savings are made available for long-term investment, the saver wants some assurance that monetary stability will endure over a period, otherwise he will concentrate on short-term investment in gold and foreign exchange. This means that he will export his capital. There are indications -- the price of gold on the free market is one, the scattered reports from the Swiss market is another -- that this flight of capital abroad is subsiding. We have not yet reached the point, however, particularly in France, when dishoarding is becoming a possibility. In Greece and Austria some of the new monetary reserves are coming from repatriation.

In the meantime, credit is expensive. Medium-term interest is high; this is true particularly for France, Italy, Germany and Austria. In Holland and England, and also in Belgium, medium- and long-term rates are much more reasonable and compare not unfavorably with American, Canadian or Swiss rates. But rationing of public issues remains necessary almost everywhere. As long as new investments do not find sufficient sources of finance, recourse to the central government is necessary and the pressure on the Treasury, particularly in France and Italy, but also in Belgium, remains considerable.

This particular financing problem would probably have been solved quite some time ago in most countries had it not been compounded by the tremendous requirements of the Western European governments for armament purposes. Economically speaking, armament expenditures are obviously a waste. From the point of view of manpower, however, it is probable that the renewal of activity in the field of armaments has prevented a decline in employment which might have followed the collapse of

the Korean boom. But the financing of these expenditures is, again, a burden on the governments concerned. The respective shares of each country have been determined by the NATO agreement and here, England and France have taken the biggest part. Compared to their gross national product, their respective contribution is somewhere between 10 and 11% as against 13% for the U.S. The contributions of Greece and Turkey are around 7%; those of Belgium and the Netherlands are over 6.5%. The lowest figures are for Italy and Denmark (below 5%). This explains why the British and French Treasuries feel this additional impact more than the others; it also explains why the main part of American military aid has gone to England and France. For Germany, occupation costs amount to roughly 6% of its gross national product. If a German army is constituted, it is expected that its defense expenditures will reach 9% of gross national product.

As a matter of fact, one has reached the strange situation where England, France and Italy actually earn a surplus in dollars, thanks very largely to military aid. France and Italy have a deficit with their European trading partners which comes to light at every monthly settlement of the European Payments Union. The French, having reached their quota, pay their deficit entirely in dollars; the Italians pay about 50% of their deficit in dollars. In other words, the creditor countries in Europe, Germany, Holland, Belgium, earn dollars from their trade with France and Italy. In spite of this loss of dollars to their European trading partners, all the European countries have increased their reserves of gold and dollars during the last year. Practically all of the increase in gold

and dollar holdings of \$2.5 billion which countries outside the United States have experienced in 1953 accrued to Europe. This is in itself a striking indication of the return to stability.

III.

The picture I have drawn is one of progress. Foreign aid and reconstruction have prevented social collapse and lifted Western Europe from the poverty of wartime. Production is now everywhere higher than prewar. Better budget and monetary management have restored a balance in international payments in country after country. But this is not absolutely general and the solidity of financial recovery is not as well established as recovery in production. That is, Germany, Holland, Belgium are not risking a return to convertibility without Britain. Britain is cautious, as are the Scandinavian countries, and Italy still has a difficult public finance problem. France, as you know, has not solved some of its own internal problems, although like the others it was able to increase its gold and dollar reserves last year. The fact is that a number of issues remain unresolved. Some of them relate to the immediate future. Others are of a long-term nature and are almost structural.

The biggest immediate uncertainty is, of course, the character of American military aid. Is it semi-permanent or will it be short-lived? For my part, I find it difficult to believe that a substantial decline in U.S. military aid would not follow a slowing down in the military effort of the European countries themselves. It seems likely therefore that military aid will continue in some form for a period of years and this should be an element of strength for

all European countries including those who are still in need of adjustments in their financial policies.

The second big question mark is economic activity in the United States. The pessimists who had forecast that a decline of business here would bring about a more than proportionate reduction in imports have been wrong, at least as far as imports from Europe are concerned. In January and February they were roughly 10% below a year ago, while the aggregate decline is around 12%. At the same time your exports to Europe have been slightly reduced. The change that has so far occurred is more likely to result in a slowing down of the improvement in European reserves than in a deterioration of their general position.

Less immediate, but in a way more serious, are some structural problems. Most of them have social and political aspects. I have already pointed to the overriding importance of the housing problem in many countries. Taxation is also more a social than a technical problem. France, Italy, and Belgium, for instance, rely heavily upon indirect taxation. The difficulty is not so much the amount of tax evasion but rather the inequities in the distribution of the tax burden. The accumulation of excises and indirect taxes is now built into the price system and brings about distortions in costs as compared to foreign costs. A third instance: structural unemployment in Italy and Germany cannot help bringing pressure upon the government of these countries to push investment or production for exports and it requires all the wisdom of their statesmen to keep these demands within the limits of actually available resources.

But there is a strong countervailing influence and this is what makes me hopeful. This influence is the lesson of experience. Germany, Austria, Greece in a dramatic fashion, Italy, the Netherlands, Belgium through continued effort, Britain through effort and in spite of many ups and downs, have demonstrated that stability could be attained and that life without inflation had its advantages. France has tasted stability for two years now. The risk the statesmen run today is not so much to become unpopular because of severe policies. The risk they run is rather that too much indulgence or complacency on their part may throw their country back into currency depreciation and that they will be made responsible for this relapse. It has become safer to follow wise policies.

If convertibility were now to become possible, the confidence which the Europeans have in themselves would become clear to all. Moreover, it would be a commitment to wise financial management.

Leonard B. RIST

FIRST WORLD TRADE CONFERENCE

May 17, 1954

U.S. FOREIGN ECONOMIC POLICY - AN INTERNATIONAL
VIEWPOINT

When the Washington Board of Trade asked me to appear on this program this morning, I was so deeply flattered that I could not resist the temptation. It is an honor indeed to be called upon to address this audience, together with so distinguished speakers. But I must confess that my appreciation of it is clouded by a very sincere feeling of embarrassment. Foreign economic policy does not only affect the outside world: it is largely a matter of internal policy and it affects collective and private interests within your country. Who am I to dare to present my outsider's comments ?

I found comfort, however, in the story of Robert Fulton, engineer, businessman and pamphleteer, who came from Pennsylvania to my country in 1797 to advocate

free trade among nations. He addressed the Directory of the French Republic as "Friends of Mankind" and assured them that the well being of France would be promoted by the abolition of tariffs and all restrictions on foreign trade... His eloquence was lost on both sides of the Atlantic and my country, like yours, has for long been classified as protectionist. In both nations, however, the fight for more liberal trade policies is an ever recurrent one and it is against that background that I feel encouraged to speak today to another group of "Friends of Mankind"...

The privilege of the foreigner who observes your foreign economic policy is that he can abstract himself from the discussions which surround the subject and from the conflicts of interests which arise therefrom. He can look at the results only, and here he cannot help gathering a feeling of continuity. It would seem that more and more your nation has become aware of the tremendous burden and responsibilities which your present position of power -- I mean both economic and military power -- has thrust upon you. Incidentally, it is an intriguing phenomenon that for the first time in history a country has achieved a position of overwhelming power without seeming to enjoy it. The increasing consciousness of your relative position in the world is far from being one of delight in your relative advantages. It

could have been one of concentration on your own direct interests, on your own internal problems, on your own private prosperity, but the facts have been harder than egotism and ever since the beginning of World War II you have consciously pursued a policy based on the idea that the prosperity of your neighbors was a condition of your own.

The overwhelming share you took in UNRRA may perhaps be explained by the desire to prevent further hardships, by mere warmheartedness; but when it came to the Marshall Plan and the systematic reconstruction of productive capacity in Europe, you were already building up competitors. As this competition grew and the search for outlets became more urgent, your own market became a more and more tempting field for foreign products. The pessimists may have forecast a return of this country to more protection. Quite the contrary. You have not reneged on the Reciprocal Trade Agreement Act; you kept it alive and your Administration is trying to ensure its continuation for several years.

But there are minor points which seem to me even more meaningful: in 1947 and 1948 you introduced in the Reciprocal Trade Agreement Act the escape clause and the peril point provision. Anxiety was expressed abroad since it could have turned into a setback for

the more liberal trend in your trade policy. But of about 50 applications examined by the Tariff Commission, only 3 gave rise to corrective action by the Executive, involving \$3 million in trade. All others were rejected. In 1953 alone, 11 applications were rejected.

Another example of your consideration for the interest of others is the careful manner in which agricultural surpluses have been managed by your government. It could have been a great temptation for the American producers or the Commodity Credit Corporation to dump some of these surpluses without consideration for repercussions abroad in the field of prices or production. But while the Administration is attempting to encourage American agricultural exports by such means as the sale in foreign currencies or certain subsidies intended to bridge the gap between internal and external prices, no unilateral action was taken which could have disorganized the world markets.

When, on top of this all, a Committee composed both of legislators and private citizens under the leadership of Mr. Randall, issues a report asking that the liberalization process be continued as a long-term policy, and moreover, when the Administration endorses this program, the optimists' predictions are confirmed. They had contended that the line you had followed hitherto would not be reversed, and they were vindicated.

As long as quick expansion of production was the rule, as long as foreign competitors were so absorbed by their own reconstruction that they caused little concern to your manufacturers, it was easier to advocate a more liberal policy. But we stand now at the end of the postwar era. The stimuli brought to business everywhere by filling the backlog of consumer demands, by reconversion, by reconstruction, and on top of it all, by the accelerated rearmament brought about by Korea, these stimuli have now run their course. Productive capacity has adapted to high levels of demand and urges to be utilized. Unless a new catastrophe occurs in the political world, business is bound to face heavier competition internally and externally. And it is at this time that your Administration is trying to formulate a long-run policy on the lines recommended by Mr. Randall's Commission. This means in fact that, rather than looking at your domestic economy in isolation, you have come to considering it in the perspective of the economic growth of the world. Others will speak of your dependency on foreign supplies. I would like to point out the tremendous potentialities of interchange on a world scale.

II

One of the great openings one can see for the productive capacity of the United States and other industrial nations is the development of underdeveloped

countries. The Randall Report has, I feel, given insufficient emphasis to the long-run prospect that economic development in less advanced parts of the world will more and more bring business to the more advanced ones. It is not enough to say that the raw material potential of many countries should be enhanced to satisfy the demands of the more advanced countries and that a flow of capital for that purpose will be beneficial to both lending and recipient countries. It is true enough, but by far too narrow a view of the forces which make possible the process of development. More important perhaps is that economic advance does take the shape of technical improvement in agriculture, mining, industry, that with higher incomes new needs come to light, that, in other words, advanced countries are being called upon not only to buy the products of the underdeveloped world, but to sell to it their own machinery, equipment and know-how.

The outlets offered by this world-wide drive for industrialization and technical advance, even in agriculture, are bound to grow. It is, in fact, to the interest of the advanced countries that income in the less advanced should grow further and quickly. Quite aside from social or humanitarian considerations, the exchanges of goods and services will per force be more active among richer nations than they can be between

rich and poor. Is it not striking that before the war one could estimate that the citizens of developed countries purchased each \$5.80 of U.S. exports, those of the intermediate areas \$1.25, and those of under-developed no more than \$0.70 ?

Another illustration of the relationship between economic advance as represented by income and the need to import more is the fact that Canada increased its income five and a half times during the last half century and increased its imports seven times during the same period. Australia between 1915 and 1938 increased its income two and half times and its imports by almost the same amount. The United States during the last fifty years increased its income 17 times and its imports 12 times. This is less than others but still proves my point.

I shall come back to the effects of industrialization upon foreign trade. In the meantime, I should like to stress the overwhelming influence of international trade in the process of development. Routine external trade has been a much more powerful element in fostering the advance of developing countries than any other external factor, including foreign investments.

The proceeds from their exports have always paid for an infinitely greater share of their imports than

did the inflow of capital. Without the direct proceeds of tobacco, cotton and wheat from the U.S., without the earnings of your shipping, the means for your industrial development would have come to you much slower in the XIX century. Canada has benefitted far more from its sales of wheat, newsprint and minerals than by imports of foreign resources in the form of capital. Had there been no wheat or beef to be exported by the Argentine, the building of its railroads, of its ports and of its industries and all the imports which made them possible would have been delayed. When during the last war, raw materials, which had been hard to sell during the depression, were eagerly sought by the Western Allies, the producing nations reaped the full benefit from their exports and found themselves again on the road to quick economic progress. They of course draw similar advantages when the prices of their exports become more favorable to them. Today the South American continent earn several billion dollars more from its coffee than it had done previously. Its advance is therefore greatly hastened. The same was true of the countries which could take advantage of a rise in their raw material prices during the Korean boom. But the point I want to make is that the progress the underdeveloped countries can achieve, thanks to an improvement in the market for their products -- whether it will be in volume or in price -- is inevitably reflected

in the higher imports they are able to pay for and which must come from the industrialized countries.

Far from me the idea that trade is the only important element. Capital movements are indeed essential. The growth of North America has been greatly hastened by them. The institution to which I belong has as its function to facilitate them. The Randall Commission has suggested means to stimulate the export of capital from this country. Capital movements do have a great role to play and they can tomorrow as they have yesterday make it possible for the less advanced to buy more of the imports they need -- again from the more advanced countries -- than they would be able to do if they had to rely only on their own resources. But unless we talk of grants, which do not have to be repaid, the capital transferred in the form of agency or government loans or in the form of private lending or private direct participations, has to be serviced and repaid. Whatever special incentives may be given to it, for instance in the form of tax relief, the prospective creditor or the prospective investor will, when he appraises the risk which he may run, look first and foremost to the prospects of trade. What are the chances, he will ask, that goods and services from the debtor country will be able to find markets? In other words, while it is true that the funds he will

provide will allow for a surplus of imports to flow to the recipient country, his contribution will be based on the assumptions that balance is not out of reach. There is no doubt that the economic advance of less favored nations will provide a tremendous and growing outlet for the products of the more advanced countries, provided the underdeveloped countries have both the income and the exchange with which to purchase our products. It is therefore to the interest of the industrial countries both to help to equip the less advanced ones and to open their doors to their products.

Some are inclined to believe that by helping ^{and} other countries to acquire modern equipment/techniques they would contribute to a narrowing of international trade since the industrializing country would then become more self-sufficient. It is true that when cotton mills, fruit canneries and ore processing plants are set up in developing countries they do reduce the potential markets of old established industries. But, assuming of course that the new plants are economically justified, which may not always be the case, the indirect effect of the creation of these activities has always been to stimulate new demands for other manufactured goods. Income has risen, consumption has been diversified, capital equipment is more necessary than ever. In short, the more advanced country finds that

it can export new varieties of products in greater quantities than before.

In 1926/29 the imports of manufactures into the British dominions which had vigourously expanded their own industries were 50% larger than into China and India with 30 times their population. Canada justly prides itself of a continuous industrial development during the recent decades. Your exports to Canada included 63% of manufactures in 1925, but in 1951 this proportion had jumped to 80%. In this respect the United States as an exporting nation probably stands to gain more than many other industrial countries from the industrialization of third areas. It is accustomed to export mostly capital goods, and durable consumer goods, two categories which are bound to benefit from expanding production and rising incomes abroad.

III

By insisting on the hopeful prospects which economic development opens up for world trade, I did not mean to belittle the equally great opportunities which trade among advanced countries still offers. International trade does not consist essentially of an exchange of manufactures on the one hand against food and raw materials on the other. Actually only one third of world trade is carried on this manner.

The two other thirds consist either of an exchange of foodstuffs and raw materials against other foodstuffs and raw materials or of an exchange of manufactures against other manufactures. Even more telling we find that the trade carried on between industrialized countries is considerably more active than between countries which are at greatly divergent stages of economic progress. At present Canada and Western Europe, or less than one-sixth of the population of the free world, take more than one-third of the American exports and they supply not quite half of your imports. European continental countries supply themselves for two-thirds from their immediate neighbors, Canada and the U.S., and two-thirds of their exports go to the same areas. As to Canada, roughly 85% of both its imports and exports derive from, or go to the United States and Western Europe. And these things happen right now, that is to say at a time when tradesmen all over the world complain of high tariffs, quotas, discrimination, at a time when rationing of foreign exchange still limits the demands. How much more the interchange would be if there were no barriers, nobody can tell. We all know that it would grow considerably.

Careful estimates have been made showing that a complete abolition of United States tariffs would,

to begin with, result only in an increase of your imports of something like 10%. This may well be true on the basis of present pattern of production abroad. But this is a static view. Any reduction in obstacles to trade, if it really has a chance to be lasting, creates the incentive to invest and produce in order to satisfy the demand of the new market. This is the way in which more specialization is introduced in international life. The so-called competitors, in fact turn out to be complementary to one another, and they end up by exchanging among themselves products whose infinite variety corresponds to the infinite variety of demand.

Some of us like to say therefore that nothing is healthier than to be able to compete in the most exacting of all markets, i.e. the United States. As long as one nation deals with less advanced countries, the incentive for it to improve its productivity, to adopt more modern methods and perfect its products is relatively small. If you allow it to compete with you, that is to say in the market where productivity is the highest, where the best quality is always called for, you push it towards improvement. I am not suggesting that we can or should have completely equal productivity standards, but it would be unfortunate if the divergences in this field would widen still

further. Competition with American products is a healthy stimulant. For the sake of the European producers, I would wish to see it intensified. And reciprocally, the competition of foreign products in your own market should add to the incentives of internal competition and lead your producers towards still greater inventiveness and specialization. If there is hope on this score, this means that certain changes must occur in some lines of production and that some exporters, here and abroad, will probably have to accept shifts and changes. But we have long ago abandoned the hope that we can remain quiescent and stagnant. Changes in structure, in methods, in production are inevitable. They are part of our life in a modern world. If we accept this prospect, we also accept the possibility of progress.

None of us believes that economic progress in Canada and Europe has yet reached a maximum and that the opportunities for interchange among advanced countries will not expand further. We must therefore expect that the United States will receive increasing orders as well as increasing offers from all industrial countries just as much as from new developing ones.

IV

Why do we all try to sell to you? It is, of course, pleasant to our vanity to see our refined textiles adorn your ladies, or to be served at your

parties Scotch whiskey and French brandy, or to restore our nerves with South American coffee, or to see the bridges of Washington decorated with the products of Italian foundries. The shops of Washington are today filled with the products we are all proud to offer to you. But we are equally happy to sell you raw materials or machine-tools or any other less artistic product. Why do we precisely want to sell these to you? For one very good reason: that we all want to buy your goods. We want to obtain the dollars without which we cannot purchase here. When our exporters try to adapt themselves to the needs of your market, your methods of merchandizing, the demands of your custom officers, they do not only serve their own interest, they make available to our own importers the indispensable wherewithall which allows our nations to receive your cotton, your wheat, your oil and all your manufactures. The fundamental truth arising therefrom is that the dollars we earn we cannot help spending here. It is true that it is our wish to put some aside as monetary reserves; they may not be used immediately but they will be used sometime in periods of stress; they will, therefore be an element of stability both in the monetary sense and in the trade sense. In addition, the higher our monetary reserves, the greater the support for our credit operations, the more credit there will be, the more economic activity, more investment, more international trade, more demands

for your products will arise. But most of the time, we will spend these dollars immediately and, by complicated routes, they will come back to you.

The example of Canada is the most telling. Over the past seven years, Canada bought from the United States five billion dollars of goods and services in excess of what it sold to you. Less than a third of this deficit was covered by the flow of American capital into Canada, leaving uncovered about three and a half billion dollars. This considerable amount was earned by Canada from its other customers -- mainly from the sterling area and continental Europe. If these dollars had not been available to Britain and Europe, Canada could not have been your customer for as much as one-fifth of your total commercial exports.

It is indifferent that the same country who has earned the dollars from you should actually spend them to purchase your goods. What is important is that the supply of dollars in the world at large be substantial enough to allow Canada to use British or European dollars to assure your continuous export business North of the Great Lakes. It is important therefore that dollar imports be abundant, irrespective of where they come from. The example of Canada shows multilateralization at work. It is natural

and indeed legitimate that those responsible for your foreign economic policy should wish to see this mechanism extended and should entertain the hope that convertibility, which is the best expression of multilateralism, should again become a possibility. The basic condition for this great step forward is, however, that some kind of balance between dollar payments and dollar earnings be in sight not between the United States and each individual country but in your overall relations with the world at large. Discrimination and bilateral arrangements are the contrary of multilateralization. It is everybody's hope, I think, both here and abroad, that more and more the example of Canada can be followed and there is no doubt that the dollars you will make available to others by buying from them or lending to them will automatically return to you through the most variegated and unpredictable channels.

Let me conclude in expressing one sincere wish. My old friend Robert Fulton in his youth praised competition as being the "true polish of society", but later on, he sought monopoly for his steamboats on the Hudson river. The United States can be proud that through its assistance to Western Europe ~~they~~ have allowed most countries to throw away the shackles of controls and to revive the spirit of enterprise

and competition. This is a lasting result. More and more the advice from this side of the ocean is that economic integration should allow for more competition and more freedom of trade within Europe. I sincerely hope that the role of leadership which the United States has assumed will lead you to reaffirm your faith in international competition in the broadest sense, not only as a "polish of society" but as a real stimulant to progress.

INSTRUCTIONS FOR GROUP MAILING

DOCUMENT TO BE MAILED <i>Combine mailings</i> <i>r. Rist Speech dated May 5, 1954, P.R. 366 (Bond Issue) & P.R. 367 (Israel Joins)</i>			DATE OF REQUEST <i>7/9/54</i>			
LIST NO. (Indicate Order of Mailing)	DATE TO BE MAILED	CLASS OF MAIL SERVICE	NO. OF COPIES		DATE DISPATCHED	
			U.S.	NON U.S.		
<input checked="" type="checkbox"/> 1 14B2	UN Depository Libraries	7/13 3rd	<i>1/38</i>	166	JUL 14 1954	
<input checked="" type="checkbox"/> 2 14D3	Request List	7/13 3rd	<i>107</i>	93	JUL 14 1954	
<input type="checkbox"/>			<i>14</i>			
<input type="checkbox"/>			<i>93</i>			
<input type="checkbox"/>			<i>0</i>			
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						
<input type="checkbox"/>						



SPECIAL INSTRUCTIONS

NOTE: Item # 1 (14B2) should receive all 3 while item # 2 (14D3) should receive only the Rist Speech & P.R. 367 - Israel Joins.

SIGNATURE (Request)

SR E

SIGNATURE (Dispatch)

P. Deill 7/14/54
H. Brown

TOTAL COST

\$3.99

Leonard B. RIST

Address to the WASHINGTON SOCIETY
of INVESTMENT ANALYSTS

November 22, 1954



The U.S. economy and economic trends abroad

. A few words of introduction.

The question which I wish to discuss today arises from the fact that we have just experienced a strange phenomenon. Production and income went down in Europe in 1951-52 while their trend was upwards here and in Canada. On the other hand, they went up in Europe in 1953-54 while they were going down in the North American continent. The calendar year 1954 looks today as a peak year for most of Western Europe. As you know, it has not been a peak year here.

The traditional view is that the economies of the free world have a continuous influence on each other. The trends in production and income levels in Europe and North America that I just gave you would seem to contradict this.

Although seemingly paradoxical, I think it can be shown that these trends, rather than contradict, actually confirm a strong interdependence between the U.S. economy and those of other countries.

Before commenting on the chances for convertibility and the way it may affect world trade, let me outline the mechanisms which demonstrate that the relationship of this economy to others is a very tangible one. And I want to conclude with a few optimistic remarks about the world forces which should drive our economies forward during the next decades.

There are three reasons, it seems to me, that enable one to maintain that interdependence between the U.S. and other economies is established even though fluctuations in economic activity here and abroad have not coincided during the past three years. In the first place, the variations of production and income in recent years have been relatively small. In the second place, the international operations of the U.S. itself explain the unhampered advance in Europe. In the third place, and this is partially the result of the previous point, the strength of the European economies have constituted a favorable factor in the world as a whole, particularly in the readjustment in this country in 1954.

Let me take these arguments one after the other. The first was that the variations of production and income

have been relatively small in Europe and here during the past three years.

That there has been on the whole a slowing down in economic growth over the last three years is only too obvious. The general causes are well-known: in Europe, reconstruction is over; in this country, reconversion is now a matter of history; and in both, the rearmament boom is coming to an end. These main factors of the rapid postwar expansion have been losing their force since the end of 1951. Readjustments were inevitable. The end of the Korean boom with the decline in raw material prices which made it so apparent, combined with the effects of the anti-inflationary measures taken in Europe, were, broadly speaking, responsible for the setback noticeable in Western Europe in 1951-52. Quite aside from the crisis in the British textile industry which can also be viewed as a structural phenomenon, unemployment rose in most European countries and production indices went down. In the case of France, this was a normal stabilization crisis. There, early in 1952, a government had taken power which was committed to stop inflation and the slowdown came a little later and lasted a little longer than in Britain, Belgium, Netherlands, Italy, where wise monetary policies had not been discouraged by the Korean boom. In Germany only, the belated reconstruction was going ahead at full speed.

The slowing down in Europe was not likely to have much

impact in the United States. Foreign aid was still flowing in substantial amounts and there was no need for further restrictions against imports from the U.S. during that period. Having gone through a minor readjustment which showed up in the average indices in the form of a 5% decline in production and benefiting by then of lower raw material prices, or, as economists say, of better "terms of trade", practically all Western European countries began to experience a slight upwards trend by the middle of 1953. This has continued since then and the improvement has generally brought economic activity to a higher level than before the setback. But it was precisely in the middle of 1953 that the so-called inventory readjustment started in the United States.

As you know, the most dramatic features of this readjustment were decreases in industrial employment and farm income. But here also, the magnitude of the movement, while certainly not negligible, was only moderate. It was smaller than in the 1949 recession and quite a number of forecasters were surprised to see how much resilience your economy had shown under the circumstances. Unemployment compensation, price supports have played their full role. These automatic offsets in your internal system have certainly helped preventing the decline from having multiplied effects. It now seems to be the consensus of business circles that

after twelve months of lower activity, the trends are upwards again. If this holds true, we shall be able to say: "A decline of 10% in the aggregate production index, a decline of nearly 3% in overall national income, an increase of unemployment to 5% of the labor force: these are undoubtedly signs of a recession, but it cannot be termed a deep crisis".

Till now, however, I have only said that the magnitude of the variation registered first in Europe and later in this country, is in no way comparable to the larger swings of say 1920, 1937, or even 1949. The swings being smaller in amplitude, their duration was also shorter and this did not allow for their spreading very far. And this brings me to my second point: how a reduction in United States activity has had no harmful effect on the European economies.

One of the reasons is that you have supplied the world at large with over \$4 billion of aid in 1953-54, thus preventing any shortage of dollars. This was in the form of economic aid and foreign expenditures by your government, including offshore purchases and troop expenditures which are by no means dole. Most of these dollars went to Europe, insuring the continuance of the expansionary trend in Western Europe. This, in turn, as we shall see, maintained the prices of primary products stable. There was some reduction in the U.S. demand for imports, the reduction in volume, however, was not accompanied and aggravated by changes in prices.

Another reason was: the balance of payment picture remained good. To take only one example: British exports to the U.S. and Canada dropped by some 10% during the first half of 1954 compared with the first half of 1953 but in part because of the drop in prices of agricultural products, British imports from the U.S. and Canada dropped also during the same period. The net result was that the United Kingdom trade deficit with the U.S. and Canada was about the same during the first six months of 1953 as during the first six months of 1954. Monetary reserves of Western Europe continued to climb, and thus lent support to higher production and consumption.

Still another reason is that expansion in Europe is now based on two forces which are not of U.S. origin: one is the internal, natural, secular trend towards better living and more consumer demand accompanied by large fixed capital investments and improved productivity; and the other is the continued demand of the underdeveloped world for the manufactures of the advanced countries. For Europe, the stimulants to production arising out of exports have scarcely been affected by the moderate recession in the United States mainly because of the continuous improvement in its own competitive position.

On the other hand - and this will be my third point - the recession in the U.S. could have been expected to bring about serious setbacks in raw material producing countries.

However, income within primary producing countries was relatively well maintained. This is all the more remarkable as these countries have in general been in a weak position ever since the Korean crisis. They received, as you remember, a very large windfall in 1950-1951 with the steep rise in staple commodity prices. Now, when you have a windfall such as this, two things are likely to happen: you begin to adapt yourself to a higher level of income. Even if you do not draw down immediately all your increased earnings, you tend to improve your standard of living and your level of investment. But a return to previous levels of income and foreign exchange earnings is liable to create a problem of readaptation to a lower level, however cautious one might have been in the meantime. The second reaction one is likely to have is to attempt through merchandising policy to maintain higher prices. The tendency to hold off stocks from the market when prices begin to drift is an all-too-natural one. We have seen Chile holding off stocks of copper until an arrangement could be made with the United States government at a relatively advantageous price; this brought about some internal disruption. We have seen Turkey holding off its stocks of wheat in the hope for better prices; here also, some disruption was inevitable. We are now witnessing an effort on the part of the coffee producing countries to resist the downward trend of their main product. Undoubtedly, in this situation there has been adaptation to higher levels of income, and now there is an attempt to maintain the higher levels by merchandising policy. Even now, the difficulties

which are still being felt by many raw material producers can be ascribed much more to the elimination of the exceptional foreign and internal demand brought about by the Korean war, including the armament boom in the United States, than to the recession of 1953-54 in this country.

It is true that, with the downturn in industrial production and the slackening in the rate of strategic stockpiling, U.S. imports of metals and other raw materials have declined. The declines were heaviest in purchases from sterling area countries and certain Latin American countries which do not produce coffee or petroleum. But the declines did not affect seriously the economies of those countries. Many of the raw material producers that sold less to the U.S. sold more to Europe, so that the reduction in U.S. imports was largely offset by the increasing import requirements of the expanding European economies, while the agricultural surpluses of the United States were prevented from exerting their full pressure on the world markets thanks to the internal support system and thanks to the restraint of your exporting authorities.

The extent to which these actions and counter-actions have supported trade at large and indirectly considerable American export trade, was recognized by the statements made by former Governor Stassen, now head of Foreign Operations Administration. He underlined the fact that as and of itself

the high level of activity in Europe and other countries exercised a beneficial influence on the U.S. economy and probably lessened the impact of the 1953 recession. In April 1954, Governor Stassen said "with the strength we have built in Western Europe and the rest of the world, their level of dollar purchases from us is not only holding up but currently increasing and that is one of the favorable things of our economic adjustment." In June, he declared again: "Europe has come forward and maintained through 1953 a consistent record of the best production since the war and has started 1954 on a very strong basis. This strength, in turn, has helped the American economy through its readjustment because it helped hold the raw material prices and it helped a steady export business from the U.S." In fact, Europe's imports from the U.S. which had declined during 1952 and tended to decline still further until 1954, have picked up notably during the first half of this year. A little less accentuated, the trend of total European imports was about the same. The U.S. exports to Europe in merchandises alone went up by 8% between the first half of 1953 and the first half of 1954, taking civilian goods and services together, they rose by over 9%.

In short, what kind of a picture do we get? In all advanced countries, the secular trend towards expansion seems to be continuing, although chances are that it won't be as

quick as it was in the years between 1946 and 1951. The end of the Korean boom coinciding with the change in rate of growth has brought about a cyclical setback in Europe first and the U.S. second. The effects of these two setbacks have, however, not multiplied one another, just the contrary: they have been attenuated by expansions in the economy of the trading partners. Moreover, the military and economic aid programs of the United States have imparted a degree of flexibility to the recovery of Europe which, in turn, has reverberated itself in North America. Underlying all these temporary developments is the constantly increasing demand for the products of the advanced countries arising from the development of underdeveloped areas.

If this analysis is right, then solidarity among national economies of the free world is not a delusion, far from it. This brings me to the reasons why the convertibility of European currencies and particularly the pound sterling is an issue of such great interest to the United States.

I cannot hide from you that I am personally disappointed that a formal decision towards restoring convertibility has been put off. The reasons given for this delay are, unfortunately, serious ones.

As you know, in the Spring and early Summer, there was much talk of the return of the pound sterling and other European currencies to some kind of convertibility and it

was hoped that this would be achieved in Spring or Summer 1955. Obviously the risks were great. If you allow any foreigner who is not a member of the sterling area to use his pounds sterling freely either for purchases in the sterling area or outside, including the dollar area, and if at the same time you abolish the trade discriminations which have kept down the demand for dollar goods even within the sterling area, this means that the sterling area producers must be ready (1) to face more active competition in third areas with dollar goods, and (2) to face more active competition with dollar goods within the sterling area. If in addition you go as far as to contemplate some relaxation of Empire preference, you add another strain to your competitive position.

Two further uncertainties must be mentioned: unless several major currencies become convertible at the same time as the pound sterling, the pound may become a scarce currency in the same way as the dollar is one today. Would that not incline some of Britain's customers to discriminate against the pound as they now discriminate against the dollar? Secondly, an aggravation of the economic recession in the United States would further reduce the markets for European goods in the U.S. and further accentuate the competition on the part of U.S. exports. This particular danger seems to be now on the wane and a few more months of stability or

recovery in this country should eliminate its reality. In other words, the risks that the United Kingdom would have taken were serious ones. But more than that, it was practically impossible to appraise quantitatively the extent to which the balance of trade of the U.K. and the sterling area would actually be affected by convertibility.

It would seem that three groups in Great Britain have become progressively more and more concerned with these risks. One group was the Labour party who realized that the less means of control of trade would be left to the British government, the greater the difficulty would be to restore some kind of centrally managed economy. In addition, more strenuous competition meant to them some danger of unemployment. This point of view was made clear by several members of the Labour party. Less clear in their expression was a second group which I only suspect of existing without any real confirmation: it would be natural for a number of manufacturers in Britain to become a little worried at the thought of increasing competition from abroad. Faced with opposition from Labour groups and with insufficient support from the entrepreneurial circles, the British government in turn became aware that the risks were greater than had been assumed for a while, so that the responsible policy makers themselves came to constitute a third group.

(Election issue). What insurance did they want against these risks? They have made it plain on several

occasions: one was greater flexibility in the trade policies of the United States, that is to say greater access to dollar earnings from exports to you, and it must be conceded that progress made in this direction in 1954 has been disappointing. The second was additional monetary reserves to weather any undue impact which temporary setbacks might have implied. I do not know what the discussions in this field have yielded; I would suspect, however, that haggling over figures in a matter like this is not a very useful attitude to take when the broader issue of returning to a world market on equal terms is actually at stake. Obviously, the devices aiming at reducing risks in both the trade and monetary fields were considered inadequate under present circumstances by the responsible circles.

Rumors have it that some European countries who would have undoubtedly followed Great Britain, are pondering now whether they can do it alone. Germany, Holland and Belgium are, as you know, in a better position than other European countries; many of their statesmen are eager to return to convertibility and to abolish anti-dollar discrimination without waiting for Great Britain. I do not know whether these countries will take the risk. If they did so, they may well be used as a channel for importing dollar goods which would then become payable in their currencies rather than in dollars, an attractive device to save dollars for

many of their European trade partners.

This may all sound disappointing but I don't think it really is. The important point is not that we should actually have achieved a degree of convertibility: the important point is that the trend towards greater equilibrium in world payments without which convertibility would be unconceivable, this trend has continued unabated and it is not formal convertibility but the continuity of this improvement which makes for our hope for less trade discrimination.

To wit, the fact that the monetary reserves of the European countries are constantly increasing; the rate of increase is a little slower in 1954 than it was the year before but the increase is still noticeable. In other words, expansion of production takes place without inflation. In addition, there is practically no unemployment, except where it is structural as in Germany or Italy.

On the other hand, discriminations and quotas are still maintained by a great number of foreign countries including the sterling area, and this hampers U.S. and Canadian exports. But the impact of these restrictions is much weaker than it would be if the Defense interest of the United States would not allow the world outside of North America to earn almost four billion dollars from economic aid and from services and deliveries to its military establishments.

The application of dollars to these purchases of goods and services for defense is not likely to stop abruptly. Just as defense orders to American industry constitute a stimulant to the United States domestic economy, defense support abroad constitutes a stimulant to American exports. It is my personal conviction that, as the effect of these factors make themselves felt more and more continuously, the need for restrictions and discriminations should appear less and less pressing and that the risks involved in their abolition and in an acceptance of a greater degree of convertibility shall seem worth taking.

The American people have been told over and over again that they play such an important role in world trade - quite aside from world political affairs - that they cannot disregard their responsibility to the rest of the world for its prosperity. They have been reminded of the fact that they purchase 50% of the world exports of copper, 70% of the world exports of lead and zinc, 70% of the world exports of coffee and one-fifth of the world exports of semi-manufactures. What I hope I have shown today is that this is not a one-way street and that your prosperity at home, while primarily dependent on domestic developments, is however linked to world prosperity through a complex pattern of action and counteraction.

You normally export abroad one-third of your wheat, of your cotton and of your tobacco; in the field of machinery, export trade represents also an important element: a quarter

of textile machinery and agricultural tractors, one out of eight for machine-tools.

It is not a proper description of the role of foreign trade to say that your imports are only 4.5% and your exports only 6% of your gross national product. The impact is essentially concentrated on a few well-known commodities, whose production affects wide areas of the country. It is natural, therefore, that while the foreign countries are trying to obtain trade concessions from you to earn more dollars for their exports to the U.S., you should at the same time press for an abolition of all the barriers which make competition of American commodities abroad more difficult. As the newspapers report today, that is exactly what is now being said at the Geneva Conference.

As to the outlook, an increase in international trade is clearly in the interest of all countries, including the U.S. How we judge the prospects depends entirely upon our concept of the future economic progress of the world. I have already hinted at my belief in a secular upwards trend. I have also mentioned that the rate of growth will probably not be as quickly over the next decade or two as it has been during the past decade. But the fundamental factors which make for more demand and better productivity are strongly at work. In the advanced countries alone, population increases and technical progress support that trend, but the ever-growing

impulse will arise more and more from the much talked about underdeveloped areas. Their drive for industrialization and higher income is not likely to slow down. It will be supported not only by their own internal efforts but by the enlightened self-interest of the advanced countries. The goods which are the object of international trade may not be the same ten years from now as they are today but their volume and their value is bound to increase. And as this happens, interdependence of the advanced countries among themselves and of the advanced world with the underdeveloped world cannot help growing more intricate and more compelling.

June 8, 1955

ADDRESS TO THE NEW YORK PRESS

There are probably few organizations which are as dependent on world economic activity as we are. We depend for our supply of funds on the security markets of the North American continent and of Europe; we depend for further availability of our capital funds mainly on the same sources. The demand for loans is itself dependent on the economic activity and the outlook for investment in our member countries, especially in the underdeveloped world. Finally, the risk involved in lending has to be appraised in taking into account the economic prospects of our borrowers.

Looking at it from another angle, prosperity and prospects in the industrial world are directly linked to prosperity and prospects in the underdeveloped world, and as we all know, this is not a one-way relationship but a reciprocal and solidary relationship. Broadly speaking, the picture of the world today is one which gives us assurance:

(a) that funds will be available to the Bank because the industrial world is able to save and able to export capital;

(b) that the demand for loans will continue unabated; and

(c) that in general the risks involved in lending are not certainly worse today and in a way look better now than they did three or four years ago.

These conclusions deserve some explanation. They are not only based on observation of the pickup of economic activity which we have witnessed here and in Canada over the last nine months or on the general expansion in Western Europe's economic activity. There are many indications that, taking the world as a whole, the rate of growth achieved during the last ten years was among the highest in the recent economic history. World industrial output (mining and manufacturing) increased 65% between 1946 and 1954, or at an annual rate of 6 1/2%. Compared to the best prewar

year, 1937, the 1954 industrial production was higher by 78%. World agricultural output in 1953 outstripped the prewar by 27%. Since the rise in world population was smaller - some 15% - a considerable increase occurred in both industrial and agricultural average per capita production. The increase in output was followed by a marked upsurge in world trade during the last several years. The volume of world exports increased 43% since 1937 and 46% between 1947 and 1953, or at a rate of more than 5% per annum.

Actually, the picture for the world at large is not uniform. But the point which deserves comment is that, while there has been a setback in a few isolated countries, the general picture remains one of growth - and fairly active growth - in practically the whole of the free world, with relatively good prospects for balance under the stimulus of both the industrial world and the drive for development.

I I don't suppose there is any need to go over the improvement of the position of U. S. and Canada on the one hand, and the remarkable expansion which has taken place in Europe on the other hand. Industrial activity, agricultural production and monetary reserves in Europe have been increasing. Actually, the hard currency reserves of Western Europe are about double what they were in 1947. All these facts are well known.

There are two points, however, which deserve special consideration: the first is that a decline in European economic activity set in immediately after the settling of the Korean boom and the period of 1951-52 was one of economic slowing down, but recovery in Europe had already occurred when the 1953-54 slowing down took place in this country. It is quite remarkable that these two recessions or readjustments did not have cumulative effects. The American aid assisted the European countries to recover from their recession, while the well-restored European markets, again assisted by American aid, provided useful outlets for American exports at the time when this country experienced its setback.

At the same time, the demand for raw materials and foodstuffs in the industrial world declined far less than could have been expected if the recession would have been cumulative. This, in turn, was a great help to the raw material producers and helped stabilize the prices of staple products after the end of the Korean boom.

This is the favorable aspect. Less favorable, however, is the fact that European countries still hesitate to face the test of convertibility. It is true that industrial production, agricultural production and national income have recovered more quickly after this war than after the previous one. It is true also that business is good all over Western Europe and that there is no unemployment. Of the four billion dollars of military and economic aid which the American government is allotting to the non-dollar world - 1/2 goes to Europe and \$500 million represented economic grants, the balance being purchases in Europe. This assistance is both precious and slightly precarious. The balance in international payments is partly due to U. S. aid to the world at large but the European countries don't dare, as yet, to take the final steps: complete abolition of discrimination and restoration of convertibility. If it is remembered that in the 20's all European currencies had been stabilized and made convertible currencies by 1926, the main weakness of the European structure becomes apparent. It is not lack of means of international payments, it is the fear that this lack may again come to light.

As it is, however, Europe has started to export capital again. The United Kingdom exports around one billion dollars a year to the Commonwealth area, and France probably around at least \$500 million to its Empire. These are substantial amounts. Swiss and Dutch markets are evidencing greater interest in foreign investment. A number of countries of course still remain in the category of capital importers: Italy and Norway are two good examples; we have been lending to them recently.

Whenever the potential dollar deficit of Europe is evoked, the question arises whether increased trade with the East could not substitute for dollar expenditures.

I personally have doubts about the extent to which Eastern European raw materials and foodstuffs could be supplied to Western Europe in great quantities. Trade between Western Europe and the East is practically balanced; in 1949 it represented only one-third in volume of prewar. In 1952 it was drastically reduced and recent information indicates that it has now picked up substantially but its aggregate volume is still no more than it was in 1949, that is to say one-third of prewar.

II Let us turn now to the underdeveloped world, and first to Latin America. The reserves accumulated during the war, the benefits drawn from the world demand for raw materials and food immediately after the war, the favorable prices commanded by their products during the Korean boom, all these elements have allowed Latin America to progress since 1945 probably more quickly than at any other period.

One could have expected the decline in prices which followed the Korean boom to embarrass seriously some of the Latin American countries. This, however, did not happen and the readjustment to lower export prices does not seem to create very serious problems. The decline of the price of coffee from its peak last year - a development which had nothing to do with the Korean war - has simply erased a very temporary windfall and the coffee prices today are still somewhat higher than they were before 1949. The only coffee exporting country which seems to have some serious problems of readjustment at the present time is Brazil. The others, Colombia and Central America, appear to have been riding the tide rather smoothly. The fact is that diversification, not only in manufacturing industries but in staple products, has been a feature of almost all South American countries. When one takes for instance agricultural commodities such as grains (wheat) and cotton, the improvement in the cultivation of these two crops has been a factor of strength. The American policies of price support seem to have acted as an umbrella for other producers.

As far as metals are concerned, you are aware of the present high prices for copper - they are actually higher than during the Korean boom - and of the very

steady performance of lead and zinc since the end of the Korean boom. The mining countries (Mexico, Peru and Chile) have under the circumstances been able to maintain substantial foreign exchange earnings from their raw materials. Here again, American stockpiling has been an element, but balance between production and actual consumption is not far.

Meanwhile, the drive for development and industrialization is continuing at the same pace. It is not probable that the internal market or the national income of the Latin American countries will be able to expand quite to the same extent that they did in 1945 to 1951, but it is not probable either that major road-blocks will appear or major declines will take place in their raw material and foodstuff exports. As a result, I personally would rather anticipate a relatively continuous upward movement which leaves room for further industrialization and further diversification.

That would mean further demand for loans from the International Bank. It would also mean that unless undue haste is exercised in borrowing abroad, the prospects for relatively easy financing of reasonable amounts of borrowing are fairly good. In other words, one might almost say that the time during which a dangerous readjustment might take place has already passed and that internal financial policies in most Latin American countries will become for quite some time the main issue. The main danger to their external balance would arise from continued inflationary pressures if internal policies do not show enough restraint.

III In contrast with South America, Asia suffered a lot from the war. The Indochina case is too well known to deserve comments. Indonesia and Burma still suffer from unsettled political conditions but they are recovering from their lowest point. The Indian subcontinent, Ceylon and Thailand are slowly forging ahead.

It is our impression that India and Pakistan can be said to be off dead center. The postwar inflation has been absorbed in the economy and the post-Korean decline as well as the world wide textile crisis of 1951 are now matters of the past. Mean-

while, iron resources in India and natural gas resources in Pakistan are being more intensively exploited.

Industrialization - especially in India - is going forward and agricultural production in the whole area is above its prewar level while food grain output per capita is approaching prewar. Even taking into account the effects of good and bad monsoons, it seems that the trend is definitely upwards.

If statistics are any good, they would show that over the last three years, in the area as a whole, income has been growing a little quicker than population: this is the first time in many years and, while still insufficient, it is a healthy sign.

The prices of raw materials which affect the area have of course declined after Korea and, as you know, tin and rubber are among the most erratic. But it is quite striking that rubber has now reached a point of relative equilibrium. At the present prices its competitive position with synthetic is rather favorable.

Rice is, as you know, coming out again from the rice producing countries and has suffered a severe setback in prices. It has, however, reached a level which is about the parity with wheat: one pound of rice costing about as much as one pound of wheat flour. At that level the markets for rice seem to be well assured. It may not be quite as easy to earn dollars out of rice as it was immediately after the war, but marketing problems should not be overwhelming.

Jute, which affects mainly Pakistan, is at a relatively low level and we must expect severe competition between India and Pakistan. At the present price, however, competition from paper or cotton bagging is not dangerous.

Fats and oils are in a fairly good long-term position, and one should expect an increase rather than a decrease in their overall outlet.

One may note in passing that while the prices of exports are of a great importance for countries like Indonesia or Burma - or for Pakistan as far as jute is concerned - several other countries do not depend as exclusively on their export

prices as the ones I just mentioned. India has very complex foreign trade and is by no means dependent on one commodity. Ceylon and Malaya benefit by lower rice prices, even if tea and rubber suffer declines.

The impression, therefore, prevails that a point of relative balance has been reached. Neither windfalls nor catastrophes should normally be expected. If the industrial countries continue to use the materials produced by South East Asia as heavily as they do at present - and everything points to that conclusion - a slow but continuous development can be expected.

Furthermore, one must never lose sight of the fact that in India, Pakistan and Ceylon, but especially in India, the fiscal policies have traditionally been rather conservative. While India has publicly announced that it would indulge in deficit financing in order to hasten internal development, it remains to be seen whether this process would be carried to the point of danger.

On the other hand, private capital imports in these countries are not likely to be very considerable and the reliance of the area as a whole on public foreign financing, including the International Bank, must be expected to remain great.

CONCLUSIONS

If we try to sum up the general impressions we gather from this quick survey, we cannot but feel rather optimistic.

1. The industrial world - North America and Western Europe - has not suffered any bad setback. It is progressing as quickly as ever; it is progressing actually at the same rate as during the reconstruction period. Roughly, one could estimate the growth of output in this area at something like $4\frac{1}{2}\%$ per annum, or $2\frac{1}{2}\%$ or 3% per head.

2. The post-Korean readjustment in the prices of raw materials and foodstuffs has erased the windfalls arising from the Korean boom, but it has not brought about catastrophic declines in the products of the underdeveloped world. The two obviously surplus commodities, wheat and cotton, are being kept off the market in substantial

amounts by the U. S. internal policy. In the other commodities, rough balance seems to be the rule. That does not exclude short-term movements one way or the other but long-term outlook seems to be for increased consumption and increased production at an average price level which would not be too different from the present one.

3. It is rather remarkable that in general the price level of staple commodities is either equal or slightly higher than it was before Korea. The drive for development in underdeveloped countries should, on the whole, be favorably assisted by these conditions and the danger to balance of payment equilibrium and debt servicing capacity in underdeveloped countries would arise more from unwise internal policies than from dramatic changes in their foreign exchange earning capacity.

The drive for development may perhaps be slightly slowed down in Latin America as a whole, but in the period 1945 to 1953 the annual rate of growth in output was roughly 4%: if it were reduced to something like $3\frac{1}{2}\%$, the demand for capital goods would remain relatively high.

The same is true of South East Asia, and especially of India, although there the rate of growth has only recently outstripped the growth of population.

4. Interchangeability of currencies is, however, not an accomplished fact. U.S. policies involving defense, economic and technological assistance abroad do make for a slight dollar surplus in favor of the non-dollar world; to wit, the increase in hard currency reserves of the European countries. But there is something unstable about these conditions which inclines the Europeans to be cagey about resuming completely free competition in the trade and exchange fields.

LONG TERM FINANCING INSTITUTIONS
OF THE WESTERN HEMISPHERE

by

Leonard B. Rist, Economic Director
International Bank for Reconstruction and Development

(Delivered at the International Banking Summer School,
Rutgers University, July 10, 1956)

I. - The General Setting

It is a common occurrence for a commercial banker to reluctantly decline credit assistance to one of his customers because it would be unwise for the borrower to finance all his needs at short term. When investment which cannot produce its fruits within a short period is involved, long-term financing becomes advisable; and if short term is used, it will mostly be in anticipation of quick "refinancing" at long-term. This is just as true in international lending as in domestic financing. Imports of long-term capital are a necessity for a great number of underdeveloped countries. They are also an imperative need for countries which have to meet emergencies such as war or reconstruction. The assurance that quick repayment of these particular capital imports will not be demanded is a condition of security for both the borrower and the lender.

The middle of the XXth century has witnessed the flourishing of institutional long-term lending and investment and the main body of this talk will be devoted to the Export-Import Bank, the International Bank, the proposed International Finance Corporation, and the private organizations which have recently entered this field. But in order to appraise their role and their future, it is useful to look back and remember the recent history of international investment.

Our generation has experienced two cycles in this field, one of which dates from the XIXth century until 1930. It was a period of free flows of capital where individual investors and banks made their own decisions about how to invest their own money. During the first World War, and immediately thereafter, however, the U.S. Treasury had to supplement the private market. It granted important loans first for the purposes of war and later relief in the devastated parts of Europe. Soon after the war, the free play of private credit resumed its former role with just one difference compared with prewar: financial supremacy had shifted from London and Paris to New York.

Foreign bonds were popular here and the net new amount issued from 1922 to 1929 was roughly \$540 million a year. American firms also branched

out abroad and direct investment took place at a net rate of over \$325 million a year including reinvested profits.

The great depression marked the beginning of a second cycle from which we are slowly emerging - a period where private capital movements played only a secondary role. In the 1930's the international long-term credit market can be said to have collapsed. Confidence in the transfer mechanism was badly shaken. Defaults were numerous and the American investing public which had domestic problems of its own was more intent on repatriating investment from abroad than on increasing foreign investment. American enterprises which had previously branched out were on the whole content with keeping control of their foreign ventures and were less inclined to develop them than they had been earlier. From 1934 to 1939, portfolio bond investment by the United States went down as a result of repayments, repatriations and losses and hardly any net new direct investment took place except through reinvestment of profits. Actually the international movement of capital was mainly towards the U.S.A. which appeared to foreign investors as a harbor of safety, and by 1939 the U.S. was a net creditor on long-term account to the tune of only \$4.5 billion, the same figure as in 1919.

The war came and with it the tremendous financial needs of the Allies. There was no hope that the market would again absorb a \$500 million Anglo-French loan as it had in 1917; even during the first war government financing had been needed. This time, the government assumed the whole responsibility. Gross war time foreign aid amounted to over \$48.7 billion, a large part of which turned out to be grants.

When lend-lease came to an end, in June 1945, no one expected the market to pick up after the hostilities. Indeed, except for substantial amounts of Canadian and International Bank bonds, which enjoy a privileged position, and for small loans for Norway and the Netherlands, except also for some Australian refunding issues, the market was unable to absorb foreign bonds. On the other hand, the needs remained great. Although it was hoped that the Europeans would soon recover some of their past capacity to export capital, the U.S.A. appeared to be richer, more able to save, more able to export capital than any other country. As a result, the initiative as well as the financial supremacy rested squarely on North America. In fact, this was accepted as the policy of the United States. It was the period when UNRRA distributed relief on a grant basis, when a special loan of \$3.7 billion was made by the U.S. government to the United Kingdom, when the Export-Import Bank broadened its operations to include emergency rehabilitation loans and when the International Bank was established, largely with dollar resources.

But very quickly - that is two years after the Armistice - the needs again appeared out of proportion with the means even of these institutions. The gold and dollar reserves of most countries dwindled to dangerously low levels. Interim aid and the Marshall Plan recognized that only the U.S. government was powerful enough to deal with the situation, and this position was maintained as military aid succeeded to economic aid to

Europe and as assistance to other areas was added to the functions of what is now the International Cooperation Administration (I.C.A.).

To UNRRA, the Marshall Plan, the economic and military aid programs, one should also add the loans or grants given by the U.S.A. through many other programs, e.g. to the United Nations agencies including UNKRA or UNWRRRA, to the U.N. Technical Assistance program, or the loans given by the Maritime Commission and the various agencies connected with surplus commodities. Altogether, from the middle of 1945 to the end of 1955, the government capital export amounted to \$4.5 billion in grants and to \$12 billion in loans (including \$4.5 billion Export-Import Bank loans). These are truly staggering figures.

By its magnitude and continuity the American government's contribution in grants and loans has been extremely successful. International transfers are now taken for granted. The problem is no longer whether Europe will be able to pay its way but when and how a greater degree of convertibility will be firmly established. The problem is no longer whether the underdeveloped countries will be able to make any progress, but at what rate this progress will take place.

This progressive return of confidence has had three remarkable results:

First, the agencies such as the Export-Import Bank and the International Bank have been able to go about their business in an atmosphere of relative security: world economy and trade were growing and the chances were that they would continue to expand. We shall describe the history of these agencies and their activities presently.

Second, the private market has revived in a rather striking manner. The cycle which began with the depression is coming to an end. We shall briefly describe this development and the institutions which are now being created in its wake.

Thirdly, and this will be our conclusion, the market itself has come to rely on the government and international institutions. This seems to offer a great hope for future expansion of capital movements based on a close cooperation between private and agency financing.

II. - The Two Main Lending Agencies

A. The Export-Import Bank

One may wonder why the Export-Import Bank should be segregated from the U.S. government financing activities. It is an agency of the Administration and its decisions are taken within the framework of government policies.

The Export-Import Bank, however, has a degree of administrative and financial autonomy which fully justifies special treatment. It was established during the depression well before the government made it its policy to give loans and grants for war or rehabilitation purposes. Even during the brief period between lend-lease and the Marshall Plan, when nearly \$1.7 billion were lent to Europe through its intermediary, for lend-lease liquidation and rehabilitation purposes, its transactions have been handled by direct contact with the borrower. And since then, while various other agencies of the government handled lending operations of various kinds, the Export-Import Bank has had a business all of its own and of a permanent character.

It was created by Executive Order of the President in February 1934, for the purpose of facilitating trade between the United States and Russia. The Bank made it a condition of doing business that Russia should settle her dollar indebtedness, and in consequence of Russia's failure to do this, the Bank's capitalization of \$11 million was never employed in the fulfillment of its original purpose. At about the same time financial assistance to the Government of Cuba was under consideration in Washington. It was decided in March 1934 to set up the Second Export-Import Bank of Washington, which proceeded to loan Cuba \$4 million. The establishment of the two banks aroused interest in the question of assisting U.S. exports in a rather more general way. After considering the possibility of setting up yet another bank - it was an era prolific in agencies - it was finally decided to broaden the scope of the Second Export-Import Bank beyond the confines of Cuba to include trade with the world in general. In 1935 the two institutions were consolidated with a capitalization of \$25 million in preferred stock, all of which was held by the Reconstruction Finance Corporation. RFC was its sole source of finance, and the only limitation on its size was the amount that RFC would be willing to put up; in 1939, however, a limit of \$100 million was placed by Congress on the amount which the Bank was allowed to have outstanding at any time. The types of business that the Bank was doing included three of the four main classes of lending that it is doing today: commodity loans, medium term credits for U.S. exporters (including lines of credit) and fundings of delayed dollar payments by countries with exchange difficulties (for example, in 1935 the Bank made a commitment to purchase from U.S. exporters notes issued by the Bank of Brazil in lieu of dollar exchange). The Bank's fourth main class of business - the project or development loans - was not initiated until 1938, when a loan of \$5 million was made to finance public works in Haiti. The prewar era closed with the Bank coming under the Federal Loan Agency, which was responsible for the functions of all Federal lending agencies.

The war era opened with an increase in the Bank's lending authority from \$100 to \$200 million, which was used mainly for the benefit of Finland, China and certain countries in Latin America.

On the occupation of Europe by the German armies, the Bank's lending policy was directed to re-orienting and expanding trade between the U.S. and Latin America and in September 1940 its lending authority was again increased from \$200 million to \$700 million for this specific purpose.

In 1941 the Bank financed its first industrial project, a steel mill in Brazil. Between September 1940 and the end of 1944 the Bank loaned \$593 million to Latin America. In 1942, the Bank was placed under the Secretary of Commerce, and in 1943, under the new Office of Economic Warfare and later associated with the Foreign Economic Administration.

With the German surrender, attention was directed to problems of postwar reconstruction in Europe. Legislation was passed in July 1945 increasing the lending authority of the Bank from \$700 million to \$3.5 billion, the Treasury taking over the responsibility of providing the Bank with funds. At the same time, the Bank was made an independent agency of the government, and the prohibition against lending to governments in default on their obligations to the U.S. government, which had existed until then, was removed. Certain rules regarding the Bank's policy were laid down, and these I shall deal with later. The Bank acted immediately providing by the end of 1945 \$650 million of credits to replace cancelled lend-lease commitments. Emergency reconstruction loans to the extent of \$950 million were authorized during the first half of 1946, and also a short-term loan of \$200 million to the Netherlands, almost half of which was provided by U.S. commercial banks, without the Bank's guarantee. In June 1946, the International Bank for Reconstruction and Development opened for business and in view of this the Export-Import Bank decided that it should cease its program of emergency reconstruction credits while of course continuing long-term broad purpose assistance to the countries which were not members of the new institution.

This did not mean that the Bank refused to act in emergency situations where it was a question of maintaining the flow of American trade with countries that were in temporary dollar difficulties - just as it had done on occasions before the war. Thus, in November 1947, a medium-term credit of \$300 million was granted to the government of Canada to enable it to continue imports from the U.S. during a period of temporary dollar shortage, at a time when the U.S. private market was unfavorable to foreign lending.

In 1951, the Bank's lending authority was increased from \$3.5 to \$4.5 billion, with the specific purpose that, in addition to its normal activities, the Bank should pay special attention to developing new sources of raw materials which were scarce at the time, on account of the outbreak of war in Korea in the middle of 1950.

In 1953, Congress amended the Export-Import Bank Act to give the Bank power to insure U.S. exports against the risk of loss resulting from war or expropriations, and the Bank has allocated \$100 million for this purpose in respect of cotton exported on consignment.

In 1954, the Bank's lending authority was increased from \$4.5 to \$5 billion, where it stands today.

In addition to making loans out of its own resources, the Export-Import Bank has been appointed the agent or administrator of loans made

by the ECA and its various successor agencies (FOA, MSA, ICA) as well as some loans made under the Defense Production Act of 1950.

To summarize the Bank's operations, it had, up to the end of 1955, authorized \$7.371 million of credits of which \$2.669 million was outstanding at the end of 1955. \$859 million more had been authorized but not yet disbursed, and \$1.472 million was totally uncommitted.

The distribution of the Bank's investment by area is shown below:

	<u>Disbursements to</u> <u>December 31, 1955</u>	<u>Outstanding at</u> <u>December 31, 1955</u>
	\$ million	
Latin America	1.523	897
Asia	741	318
Europe	2.436	1.317
Africa	150	132
Canada	184	-
Oceania	6	5
Miscellaneous	<u>4</u>	<u>-</u>
	<u>5.044</u>	<u>2.699</u>

The Bank operates at a profit, which is now running at the rate of \$60 million a year and has built up reserves of nearly \$400 million which do not, however, increase its total lending authority but merely reduce the extent to which its operations are financed on borrowing. The term of its loans ranges from 6 to 15 months for commodity loans, to 30 years for postwar reconstruction loans. The average term varies from 7 to 10 years.

The operations underlying these aggregate figures are of four main kinds: (aside from the large emergency reconstruction credits made to Europe in 1945 and 1946).

(1) Exporters credits, by which the Bank assists in the financing of the export of goods of a productive character, either by individual items, or by lines of credit. In the past the Bank has agreed to carry from 50% to 90% of the amount and of the risk involved; today the normal practice is to provide 60%.

(2) Commodity credits, by which the Bank has extended lines of credit to foreign banks to provide short-term financing for the export of commodities such as cotton and tobacco.

(3) Project loans by which the Bank has extended credit to finance projects undertaken overseas by U.S. or foreign corporations, or by foreign governments. These include projects for the development of material supplies, and for the construction of basic industries, roads, harbors, power installations and irrigation schemes which involve the use of American equipment. This kind of operation makes up the major part of the Bank's lending.

(4) The Bank has made loans for the purpose of providing dollars to countries which are in temporary exchange difficulties, the most noteworthy of which have been the credit of \$300 million for the government of Canada in 1947, of \$125 million to Argentina in 1950 and of \$300 million to Brazil in 1953.

In June 1946, after the IBRD had opened for business, the Bank decided to cease its program of emergency reconstruction credits and its report for that year stated that "it is the policy of the Bank that the credits which it authorizes shall be for specific purposes and shall contribute in the most direct manner to a balanced long-range expansion of foreign trade, and shall be on terms appropriate to the circumstances in each case." Thereafter the Bank's business has been in line with the provision of the Export-Import Bank Act that loans shall "offer reasonable assurance of repayment".

In effect the background of the Bank's operations is not that the U.S. finds difficulties in selling overseas but that it does have difficulties in getting paid. The blind extension of credit as such would postpone this problem but at the same time increase its magnitude in the long-run. The Bank, therefore, aims to provide finance in a selective manner for exports such as capital goods that will increase the ability of the importing countries to earn dollars. It furthermore restricts its commitments towards countries whose repayment capacity appears to the Bank to be open to question.

The second principle of policy written into the Act is that the Bank should "supplement and encourage and not compete with private capital". Before making a loan the Bank satisfies itself that private capital is not available; one broad effect of this has been that the Bank does hardly any financing of imports as private finance is normally available for this purpose. The Bank works with commercial banks, and uses their facilities for the extension of credit. It has arranged with commercial banks that they should actually take over some of its credits. Obligations of borrowers have always been available for purchase by private interests, though few such transactions have taken place - far fewer than is the case with IBRD. We shall revert to this later when we discuss cooperation with the private market.

Finally, the Export-Import Bank, in contrast to IBRD, but consistent with its purpose which is to foster American foreign trade, makes tied dollar loans for the foreign exchange costs of the borrowers requirements. Only in very rare and exceptional circumstances has it financed local currency costs, or purchases in third countries.

Thus in more than twenty years of existence, from 1934 to the present date, the Bank has changed the emphasis of its business from exporters credits before the war to development loans to Latin America during the war; emergency reconstruction loans to Europe after the war; then to foreign exchange funding loans and development loans in the Western hemisphere. In the last two or three years it has experienced once again and on a small scale a demand for the type of exporter credit which was its main business at the beginning. Moreover, it has a continued interest in project loans which benefit either American exporters or American business

abroad or future supplies to the American economy.

B. - The International Bank for Reconstruction & Development

The IBRD was established as a result of the Bretton Woods Conference of July 1944 at the same time as the International Monetary Fund. It began operations at the beginning of 1946 and made its first loan in May 1947. It is a specialized agency associated with the United Nations and its shareholders are governments. Its organization deserves a word of comment.

Its membership includes today 58 countries. In addition to the countries belonging to the Soviet orbit, only a few nations of the free world are missing, the most important being Switzerland, Spain, Portugal, Argentina and New Zealand. One of the possible explanations for the absence of at least some of them is that membership in the Bank cannot be obtained unless membership in the Fund has been secured. The member countries are represented individually once a year at the meeting of the Governors where each country has a voting power proportionate to its capital subscription. These capital subscriptions are in turn computed according to the approximate economic strength of each member. As a result of this system of weighted voting, the United States of America has a little over 30% of the voting power, the U.K. around 12½%, France a little over 5%, etc. The five bigger shareholders each appoint a permanent Executive Director and the 53 other members group their votes to elect 11 further members of the Board of Directors. The weighted voting system applies to the Executive Directors as well as to the Governors. These Executive Directors meet at intervals, at least once a month; they appoint the President of the organization and vote on its policies and loan operations.

The capital structure of the Bank is no less original. In establishing it, the founders of the institution intended to give the Bank both cash resources and a substantial borrowing capacity. For that purpose, they subscribed in cash around \$1.8 billion and guaranteed the Bank's obligations to the tune of four times that cash subscription, this making a total of \$7.2 billion as guarantee funds.

Unfortunately, not all of the cash subscription could be made available to the Bank immediately. A number of countries felt unable to allow substantial exports of capital to take place. To this day the Bank has been able to avail itself of only a little over \$1 billion; the U.S. and Canada are the only countries which have fully released their cash subscription. This cash capital is not only important because of its amount but also because of its denomination. Except for one-tenth which was paid in gold or dollars, it is expressed in the national currencies of the member countries, thus giving the organization a first supply of currencies other than U.S. dollars: of the billion dollars available from this source roughly 25% was in currencies other than U.S. dollars.

As to the guarantee fund which is provided by creditor nations and potential borrowers alike, it serves as foundation for the borrowing activities of the Bank. It was one of the purposes of its founders that the Bank should be a channel between the private market and the foreign borrowers; they knew the reluctance of the investors to run a foreign risk, and the guarantee feature in which the U.S.A. participates for \$2.540 million explains the success of the Bank in floating roughly \$1 billion of bonds. By this means also, the organization was able to secure other currencies than U.S. dollars: of the \$850 million of bonds now outstanding nearly 20% are expressed in Swiss francs, Canadian dollars, pounds sterling and Dutch guilders.

In addition to capital subscription and bonds, the Bank secured further resources (roughly \$550 million) from principal repayments, from its accumulated surplus, and finally from the sale to the market of obligations delivered to it by its own borrowers.

Altogether these resources amount to close to \$2½ billion; the amount of commitments entered into by the Bank is over \$2½ billion, of which \$1.9 billion has actually been disbursed. These commitments or loans go to some 41 member countries or territories. The rate at which the money is lent is based on its cost to the Bank plus a small margin for expenses, plus a statutory differential of 1% the proceeds of which are accumulated in a special reserve against losses. The running rate turns out to be between 4¼ and 5% according to the maturity. Loans are usually made for terms ranging from 7 to 30 years, the average maturity of the portfolio being around 12 years.

The lending policies of the IBRD were set forth in its Articles of Agreement. A basic one is that the loans should have reasonable prospects of repayment; the creditworthiness of the borrowing countries is, therefore, all important and subject to constant review. As a matter of fact the Bank has not experienced one default. The second is that the loans should be granted to a government or provided with a government guarantee. This rule has a dual purpose: to make sure that priority of transfer will be granted to the loan service, and that the country attributes enough importance to the project financed to shoulder the commercial risk. In this respect the IBRD has stricter rules than the Export-Import Bank which is free to lend to governments, individual importers or exporters alike. As we shall see, the International Finance Corporation will be free of this limitation. Thirdly, the loans should be made for specific projects: this expression has been interpreted in a flexible manner and "projects" may include a wide range of operations, from a hydroelectric plant or a paper mill to a general development program or a specific import list related to a development or a rehabilitation program. Fourthly, the Bank lends primarily for the foreign exchange cost of a project: this rule is also subject to flexible interpretation.

Last but not least, the Bank cannot make tied loans. Contrary to the Export-Import Bank and contrary also the practice of the export insurance organizations in Europe, the Bank must provide its borrower with the currency needed to secure the goods financed by it. The importance of this provision pervades all its operations. It implies that the need for non-dollar currencies is an ever recurring problem in its financial management; it implies that when the dollar prospects of a given borrower are weaker than its general debt carrying capacity, the Bank will endeavor to lend in European currencies rather than in U.S. dollars; it implies that the borrower will be encouraged to purchase his supplies wherever the market is cheaper.

In other words, it implies that the Bank should not support any particular group of exporters: by necessity it finds itself placed in the position of an agent of the importer, that is to say an agent of the borrowing country. This, in turn, has had a number of consequences. If one starts from the premise that the borrowing capacity of the borrowing country is limited, one must share in the responsibility for advising on the best use which can be made of it. One is therefore compelled to consider how the foreign exchange revenues may best be managed, what policies in the fiscal and investment field are the most likely to be successful, what investments should be undertaken by priority. The Bank finds itself perforce in the position of a financial and investment adviser to its member countries. It would, therefore, be hardly fair to judge its contribution merely on the amount of loans it has actually granted, although its contribution to economic development rises at the rate of about \$400 million a year. Technical assistance is absorbing almost as much time and effort as lending per se.

The forms which this technical assistance can take are extremely varied. They include advice on the construction of the projects, suggestions as to their financial or technical operations, advice on the choice to be made among different investment projects, advice on the establishment of development programs or their administration, advice on development banks and the organization of development banks and financial markets. The most ambitious and better known of these activities include what the Bank calls the "survey missions", where experts in various fields join efforts to make consistent recommendations for the development of a particular country. Some 13 such missions have already submitted their reports and very frequently their recommendations have been adopted and put into force. The strength of the IBRD is precisely this unique combination of lending power coupled with advice on the economic development of its potential borrowers.

By the end of June 1956 its lending had been distributed as follows:

Reconstruction loans to Europe	\$497 million
Development loans to Europe	472
Loans to Latin America	653
Loans to Asia and Middle East	439
Loans to Africa	348
Loans to Australia	<u>259</u>
	\$2.668 million (net of cancellations & refundings)

As to the purposes served by this financing, it has gone very largely to basic facilities. Only the reconstruction loans which amounted to nearly \$500 million in 1947 included substantial amounts for raw materials. Of the development loans, some 67% went to power and transportation and some 25% to industry and agriculture, including irrigation and forestry.

The question arises, of course, how two institutions, both residing in Washington, one of which handles exclusively dollar credits, the other one handling mostly dollar credits, divide the operations among themselves. In the first place, it must be pointed out that no question arises in the countries which are not members of the IBRD, Spain and the Argentine, for instance: there, the IBRD cannot lend. In the second place, long-term loans for development purposes would rather naturally fall within the province of the International Bank, so far as its member countries are concerned, while when the interest of the American exporters or American business abroad is primarily concerned - especially when no government guarantee is contemplated - the Export-Import Bank may well come first in line. There are also certain countries which prefer to deal with an international organization than to entering into bilateral arrangements. Finally, these broad principles may not be enough to serve as a definite guide, and some borrowers have, from time to time, hesitated between the two institutions. It is hardly necessary to point out that the very fact that they both have their seat in Washington facilitates enormously the elimination of possible confusion. Conversations between the two institutions are a common occurrence and the areas of operation can therefore not overlap.

III. - The Foreign Bond Market

The time and effort which were needed to obtain full acceptance of the International Bank bonds by the American private market are a good illustration of the slow psychological evolution of the investing public in this country. This sounds like a strange pronouncement after the Bank has already issued \$830,000,000 of its bonds in the U.S.A. It is, however, true. When early in 1947 it became possible for the IBRD to consider floating its first issues, the foreign bond market was practically dead, except for Canadian issues which are historically considered as hardly different from domestic U.S. risks. There were in 1946 and 1947, two small issues of Norwegian and Netherlands bonds and a few Australian refunding issues. That was all. It is not necessary to explain this reluctance to lend abroad. Fifteen years of depression and of war had convinced the investors that discriminating good from bad investment at home was difficult enough without going into what was generally dreaded: the "transfer risk". But there is one aspect of this situation whose weight is not always adequately appreciated. In the U.S.A. individual investors hold very few bonds today, except tax exempt securities. Bonds are mostly held by institutional investors. Savings in the form of money claims accumulate largely in the form of insurance, savings account, savings and loan association shares. In 1953 total net investment of personal savings in financial assets amounted to about \$20 billion. One half of this amount was entrusted to insurance companies, savings banks and savings and loan associations. An additional \$2.7 billion went into pension funds. The managers of these institutions and funds can hardly afford to take other than normal risks. They will inevitably be more careful in their selection than private individuals. Moreover, all of them are subject to some kind of legislation or regulations or to regular inspection. Very often these rules and regulations specifically preclude them from investing abroad except in Canada. As to the commercial banks, they are mainly interested in medium-term investment and they must abide by the judgment of both their Board of Directors and the Bank examiners.

As a result of this complex background, it was necessary for the International Bank to conquer two obstacles. One was the psychological resistance to foreign investment in general. An educational campaign had to be launched to bring home to the market the fact that while the IBRD was meant to take foreign risks, its own securities carried the guarantee of the major creditor countries, beginning with the U.S. and the U.K. The second obstacle was legislative. Special legislation had to be passed in some 20 States to authorize insurance or savings institutions, or both, to buy these bonds. This could only be done very progressively. Only two years ago did Congress - which has jurisdiction over the District of Columbia - allow the insurance companies of Washington to purchase them. Similar legislation is still pending or being considered in some States such as South Carolina and also in some of the Canadian provinces.

And the IBRD bonds are not really foreign bonds. Except for Canadian bonds, all foreign bonds remained in fact a prohibited investment

for most institutions. This year, however, a new departure was finally made in this respect. The State of New York recently allowed its insurance companies to invest 1% of their admitted assets in foreign securities. This movement may spread. But the fact that this is happening in 1956 underlines both the strength of the resistance to change and that a change is beginning to make itself felt.

How far has this change gone? Actually some interest in straight foreign bonds has revived during the last two years. Since 1954, Australia, Belgium, Norway and South Africa were able to float on the market medium-size issues mostly at ten years or less. Nothing of the kind had been possible since 1947. According to inquiries made in the market, a substantial fraction of these securities was bought for foreign accounts, mostly for European holders of dollars. And indeed at about the same time the same borrowing countries found it easier to issue bonds in Switzerland, Holland or Sweden. The fact is that there has been a revival of European interest in at least European or Commonwealth fixed-interest securities and that this climate has progressively influenced New York. As we shall see presently, cooperation with the official lending agencies has also played a major role in this improvement.

Who are the domestic purchasers? Some individuals, some funds which are free to invest as they choose and the commercial banks. The commercial banks have traditionally cooperated with the Export-Import Bank in carrying some of the latter's commitments sometimes with and sometimes without guarantee from the agency. And the Charter of the recently created AOFC (a private corporation which is to assist American exporters with medium-term credit) has provided room for letting the Export-Import Bank carry at least part of its risks. A similar and very active cooperation has been established with the International Bank. Some technical details may be of interest in this respect.

In the first place, medium-term bonds of the International Bank itself are an attractive security for banks, commanding as they do a small yield premium over direct U.S. obligations. In the second place, early in the Bank's history some of the commercial banks began to buy bonds held by it in its portfolio, in other words, obligations of countries to whom IBRD loans had been made, provided the IBRD put its guarantee on it. From the financial standpoint this amounts to the same thing as for the Bank to issue its own obligations. Much more significant therefore was the third stage of this evolution.

The commercial banks progressively became interested in buying out of the Bank's portfolio short and medium-term obligations of its borrowers without the Bank's guarantee. A growing amount of sales of this kind has taken place in recent years. Their total now reaches around \$200 million, of which about \$150 million are still outstanding. The importance of this kind of operation becomes clear if it is realized that in this case the holder of the foreign bond carries the full risk of the foreign debtor without any shield. The result is that certain foreign signatures are progressively

gaining circulation again on their own. And they are by no means all European. A great number of operations concerned Latin-American or Asian bonds. The role of the IBRD in this context is to reassure the ultimate purchaser of the bond that the project has been thoroughly examined and that the creditworthiness of the debtor country has been carefully studied. Moreover, it is almost inevitable that the Bank should keep part of the debtor's bonds and mostly of course the long-term ones. There is therefore an unwritten assurance that the Bank will continue its interest in these particular obligations and in case of need exert its influence to obtain regular servicing. It would be an exaggeration to represent these operations as the only means through which American banks participate in non-commercial direct medium-term financing abroad. The major American commercial banks do from time to time lend abroad on their own, although there is no official record of these transactions. Some of them are linked to a gold or dollar deposit; others represent genuine risk taking by private institutions without security. But clearly the system of IBRD portfolio sales without guarantee represents in a way a welcome intermediate step between IBRD lending and strictly independent commercial bank loans.

A fourth stage in the progress of cooperation was reached in 1954 when the commercial banks instead of buying obligations out of the Bank's portfolio actually participated in the loan at the outset. This in fact is an extended application of a procedure which had already been used in two isolated cases in 1948 and 1952. Instead of waiting until disbursements allowed for the creation of a new security and then purchasing it from IBRD, the banker in this system undertakes at the time when the loan is signed to participate without IBRD guarantee in the disbursements as and when they take place under an agreement whereby his contribution will be repaid out of the first maturities. The participation agreements are actually a refinement of the portfolio sales. They now amount to \$55 million and in the year 1955 commercial banks participated in 20 out of 27 loans made by the Bank.

Finally, it is necessary to mention another most important form of cooperation. It affects this time not only the commercial banks but the financial market generally. This is the combined IBRD-public market bond issue. When in 1951 the International Bank lent \$50 million at long-term to South Africa for transportation and electricity, a group of investment bankers privately placed another \$20 million of short- and medium-term South African bonds with their own investment customers. The IBRD was not involved in the operation except that the private placement and the signing of the loan agreement by the Bank took place at the same time. More recently several public bond floatations were made in a similar fashion. When in December 1954 the IBRD made a \$20 million loan at 15 years to Belgium, an investment banking syndicate offered for public subscription \$35 million of 3 to 10-year bonds. Norway borrowed \$25 million from the IBRD and \$15 million in the market at exactly the same date (April 1955). And in November 1955 South Africa combined a 10-year loan of £ 9 million from IBRD with a public issue of \$25 million in New York.

In each case maturities taken by the IBRD were longer or at least equal in length to those carried by the public offering. The great importance of these combined operations was underlined several times by the underwriting firms. They represent a vivid illustration of how an official institution can assist in re-opening private market operations.

IV. - The Equity Market

Our review till now concerned essentially the long and medium-term capital movements in the form of loans. We have seen how government, official lending agencies, and the private market have substituted for one another, or supplemented and stimulated each other, and how a practically non-existent foreign bond market is slowly regaining some strength and initiative. But there is another form of capital export which has been much more lively than fixed yield capital. Equity financing has not only never ceased, it has known a substantial activity since the war.

This was mainly in the form of direct investment by important corporations desirous of branching out abroad, largely to develop their supplies or open up new outlets. It is a striking fact that while between 1922 and 1929 in the golden era of U.S. ^{private} capital export, direct investments including reinvestments represented less than 40% of total net capital exports, since 1946 this same category has amounted to nearly 90% of the total, a yearly total which, in dollars of the same purchasing value, had remained practically unchanged. In other words, the great concentration of savings and financial means in corporate or mutual form had in the field of equity investment an effect exactly opposite to what it had had in the field of bond investment. In amount, net equity investment abroad has not varied greatly from year to year since the war. There was, however, a sizeable spurt in 1954 and probably also in 1955. At the same time, that is to say during the last two or three years, three major developments have taken place.

First, oil and mining which account for over two-thirds of the total do not seem to be growing in proportion to the total, while manufacturing industry and trade and marketing are rather on the increase. This might indicate that more opportunities are opening up in this field, a not unexpected conclusion in view of the great economic movement which has carried the whole world forward since the war. This by the way may have an important bearing on the future prospect of investment abroad. It may well be that medium and small size investment other than branching off of U.S. corporations will tend to expand more quickly in the near future. This would provide a good operational basis for the institutions which are discussed later on.

Second, foreign investment in the form of purchase of shares quoted abroad has become a relatively sizeable business in New York, although the amounts purchased for private account cannot be very big as long as the shares are not quoted in the U.S. But quotation has been obtained for some foreign securities, Royal Dutch Shell being the outstanding example.

Thirdly, and this is the most important in the context of this lecture, institutions of all kinds are springing up in the wake of this renewed interest in foreign ventures. Some of them fall in the investment trust category. They are more or less specialized, they sometimes limit themselves to Canadian holdings; a few, however, are now free to invest in other foreign securities. Others can participate directly in new or old ventures, and besides intend to act as investors or promoters. It may be worthwhile mentioning some of them.

The oldest one in this category is the International Basic Economy Corporation. It was set up years ago by the Rockefeller brothers, with an initial capital of \$12 million. It has assisted in the creation and financing of industrial trade, agricultural and finance companies in Latin America. Among the more recent creations the following names are best known:

Deltec S.A. had^{been} established in 1946 by American capital to conduct investment banking operations in Brazil. Its American affiliate in The Deltec Corporation which was formed in 1947 by an assorted group of promoters who included the Banco Mercantile de Sao Paulo, the Suez Canal Company, the Banque de l'Indochine, Loavo Aranha and senior partners of Kidder, Peabody & Co., Wood, Struthers & Co., Bear Stearns & Co. and Goldmann Sachs & Co. It aims to provide short-term dollar loans, as well as venture capital for overseas enterprises. It also intends to place blocks of Latin American securities in the United States, a recent example being the placement of some stock of a Venezuelan mortgage company. It may assist other U.S. funds such as Inter-American Capital Corp. in its Latin American investments.

Acturus Investment and Development Corporation is a subsidiary of the Chase Manhattan Bank. It is believed to have made some test investments abroad in partnership with U.S. concerns.

The Development Resources Corporation established by Lazard Freres, New York, under the management of two well known former heads of TVA, Messrs. David Lilienthal and Gordon Clapp, aims to go into partnership with U.S. or European firms in the establishment of new ventures overseas, and also to provide technical assistance. According to recent reports it signed a contract with Iran to assist in economic planning in that country's oil producing area.

Inter-American Capital Corporation was established in 1955 by the South American Gold and Platinum Company, Time Inc. and the Pennroad Corporation, to undertake both portfolio and direct investments in Latin America. It is a by-product of the Inter-American Investment Conference of 1955, where its promoters had been active. The company has an authorized capitalization of \$2.5 million convertible preferred stock and \$250 thousand common stock. In addition it intends to issue \$5 million of convertible cumulative income debentures. Part of the common stock, the preferred stock and the income debentures would be combined in units which would be privately placed.

International Resources Fund is the first mutual investment fund organized in recent years for the purpose of holding foreign securities. This fund used to be called National Resources Fund. Its investments were restricted to U.S. and Canadian securities. A new charter dated September 1955 allows for investment in other countries. It will invest primarily in the field of natural resources. In doing so, it will include to the extent of at least two-thirds of its investments, securities representing leading international or foreign natural resources companies.

Another diversified, management mutual fund is International Investors Inc. In February of this year it made its first offer of shares to the public. As is the case with International Resources Fund, International Investors intends to keep at least two-thirds of its assets in foreign securities. It expects to diversify its investments among foreign industrial, raw material, public utility, transportation or financial securities having growth prospects and which can be sold for U.S. dollars and whose interest or dividend payments are readily convertible in dollars.

Contrary to the two companies I just discussed, the Transoceanic Development Corporation was organized in 1955 as a closed-end investment company. It has an international sponsorship which includes Kuhn, Loeb & Co., the First Boston Corporation of New York and a number of European participants, among whom Warburg London and several banks. The authorized capital is \$10 million, about 60% of which is paid up. Its purpose is the making of equity investments in overseas enterprises, and more important, to participate in financing such investments jointly with others. It is intended that it should serve as a study group and as a member or a leader of a syndicate in participation not only with its own shareholders but with any other group. This would involve associating with investment trusts such as I have mentioned or with the International Finance Corporation. It envisages both investment in existing companies and the promotion, financing and development of new enterprises. The corporation has been registered in Canada, but it will be mainly managed from New York and London.

The present means of these institutions are not of course very great. But behind them stand the very large resources of their sponsors. They would undoubtedly be forthcoming if the demand emerged. As it is, their list is clear evidence of a change in climate and of a new willingness on the part of the financial world to look for new investment opportunities abroad and to go into partnership with others, including official institutions.

May I, once more, emphasize the importance of partnership or cooperation? As we have seen, the slow revival of the bond market is in part based on the reliance of the financial world on partnership with the International Bank, whose structure and history inspire confidence. Is it surprising that this same idea should have been viewed with favor in the field of venture capital? Sometime in 1956 the International Finance Corporation will be established. It is to be an affiliate of the

International Bank and its constitution will be very similar. The governments of the member countries will subscribe the capital, this time entirely in dollars, and their votes will be weighted according to the number of shares held by them. Again the U.S.A. and the U.K. will be at the top of the list. At the start the capital will be somewhere between \$75 million and \$100 million. The member countries will be represented on the Board of Directors by the same persons who represent them as Executive Directors of the International Bank and the Chairman of the Board will be the President of the IBRD.

Its essential purpose will be to make loans in partnership with private capital, local or foreign, in order to assist in the creation or expansion of private enterprises principally in underdeveloped countries. One of its most delicate problems will be to determine that it is not substituting for private capital which could have been contributed had the IFC not existed, and that its assistance is really making a new investment possible. It will make only loans but these loans can be accompanied by any clause which would make their remuneration or resale value dependent upon the earnings of the borrowing enterprise, e.g. income bonds or bonds convertible into shares if held by other than IFC. Many of its loans could thus enjoy a chance of capital appreciation. This is an important feature since one of its basic policies will be to turn over its capital by selling its holdings whenever an attractive possibility comes to hand. Moreover, it will not require the guarantee of the government in whose territory the enterprises it finances are situated. This will relieve it from one of the limitations under which the IBRD has been operating. Its position with regard to the country in which it invests will be in principle exactly the same as that of any private investor.

It is hoped that thanks to the experience of the International Bank and to the high sponsorship which it enjoys, the IFC will be able to stimulate the movements of private capital - local or foreign - into a number of medium size enterprises which, without this assistance, would forever remain in the planning stage. And there is good reason for this hope. Since the idea of IFC was launched about three years ago, is it not striking to see how many new private financial institutions have been born in New York which, besides all the other enterprises already engaged in direct investment abroad, are apt to become either the partners of IFC or the purchasers of its portfolio? And if any prediction is possible in this field, it is probable that the partnership system between private and official capital will grow even more quickly in the field of venture capital than in the field of bond investment.

THE EUROPEAN COMMON MARKET

Address by Leonard Rist

Economic Director of the World Bank

to the Annual Meeting

of the

International Advertising Association, Inc.

New York, May 16, 1958

It is indeed a pleasure to address a group such as this, particularly on the subject assigned to me. Your daily concern is new business. If I speak about the Common Market and what it may mean in terms of new business and particularly new business relations, I can at least count on a favorable prejudice on your part. In view of the short time available I shall concentrate on policy problems rather than on figures.

I should however say, at the outset, that I feel some humility at the thought of talking about the European Economic Community in the presence of Mr. Paul Hoffman. His achievements in Europe are well known to all of us. But one of them deserves to be singled out today. His enthusiasm for international cooperation, his faith in the productive capacity of the European economies, his conviction that the wounds of war could heal if business activity and hopes for better living could be stimulated, and the warmth with which he conveyed his ideas are directly responsible for the rather bold concepts which underlie what we call the "Common Market."

The manner in which Mr. Hoffman has directed American economic aid to Europe has achieved two great moral results: (1) he helped restore the self-confidence of the nations which American contributions were assisting, and (2) he helped restore the self-confidence of the business community in the same countries. The Common Market treaty is a direct consequence of this truly spiritual change. Those of you who, over the last five years, have travelled through Europe must remember the self-reliance which characterizes the European entrepreneur today, and his readiness, sometimes even his impatience, to meet the challenge of increased international competition. This is in essence the philosophy of the European Economic Community: an increased challenge to production, to marketing, and, generally, to inventiveness on a broader international scale.

The word "integration" has often been used to describe the process now under way. If literally interpreted, this is perhaps too ambitious a description. Strictly speaking, the word integration may imply in the mind of many people deep political consequences; it implies substantial surrender of sovereignty in the field of internal and external policies; it implies some kind of a merger of nationalities. Neither the Benelux Customs Union, nor the Coal and Steel Community, the two predecessors of the Common Market, reach outside of the economic field. And the European Economic Community does not go further, nor does it need to go further. It rests on the common realization that, given the elimination of the main points of political friction, which has now been realized, a broadening of trade competition would be to the advantage of all and should lead to accelerated economic progress. How far the advance of economic integration may facilitate further rapprochement in the political field is wisely left for the future to determine. At present, the point is that there are enough common interests in the purely economic sphere for economic expansion to be considered a common goal, worth some sacrifices.

* * * * *

Belgium, France, Germany, Holland, Italy and Luxemburg are now the six members of the Community. In fact, they form only four customs groups since Belgium, Holland and Luxemburg are already associated in Benelux. The main features of their agreement are well known: (1) over a period of 12 to 15 years they will abolish tariffs and other trade restrictions between themselves; (2) during the same period they will establish a common tariff with the outside world. A few technical details are in order at this point.

The internal elimination of trade barriers is to be brought about in three four-year periods - a breathing spell may be granted if necessary. Each four-year period can be extended provided all extensions together do not prolong the total over 15 years. By next January 1st each member will cut each of its duties by 10%. Further

reductions must be achieved by successive stages so that the overall tariff level of each state will be lowered by at least 30% at the end of the first four-year period. In order to ensure that all duties are being reduced and not only those whose reduction would hurt least, the minimum reduction for any single duty during the first stage would be 20%. At the end of the second stage, which will also be progressive, the total reduction should reach 60%, the total reduction on any single duty being at least 35%. At the end of the third period of four years, all remaining duties will have been abolished as between the members.

It should also be mentioned that export duties and equivalent taxes will be eliminated by the end of the first stage.

We know all too well that tariffs are not the only form of restriction on commercial trade - quantitative restrictions are today quite important. The Treaty provides that they, too, shall be progressively abolished over the three stages.

Finally, to the extent there exist export restrictions, they will have to be eliminated by the end of the first year.

So much for the trade among the Six. The trade of the Six with the rest of the world will eventually be subject to a single common external tariff which, at the end of the 12 or 15-year period, will be - unless otherwise provided - the arithmetic average of the rates applied by January 1st 1957. There are exceptions to this rule: some duties will be higher and some lower than the arithmetic average. A number of them have already been fixed. More generally, duties on raw materials cannot exceed 3%, those on semi-finished products 10%, for inorganic chemicals 15%, and for organic chemicals 25%.

This common tariff, as well as other commercial policy features, will be subject to international

negotiations like any established tariff is now, but the negotiations will be conducted by one group representing the Six countries. And it is not irrelevant to point out that during the recent discussions at GATT, one single group of delegates spoke on behalf of the Common Market and not on behalf of individual countries.

Some additional features are worth noting. A common agricultural policy is to be followed. Its purposes, to be sure, are those which are traditionally ascribed to agricultural policy: equitable standards of living for the agricultural population, stabilized markets, guaranteed supplies, reasonable prices, etc. If one takes account of the protectionist tradition which prevails in most member countries, it seems clear that one of the ways by which the sacrifices of the members may be minimized would be through common marketing arrangements. It is, however, much too early to forecast how much and how quickly agreement can be reached in the vexing field of agriculture.

There are others where the same is true, where the Treaty involves more than a mere broadening of markets. Take social policy. Over the period of 12 to 15 years, complete freedom of movements of people and freedom of establishment is to be realized within the Common Market. This is just as important for labor in search of work - and Italy is vitally interested in this - as for businesses in search of a proper location. Furthermore, working conditions will be equalized to a certain extent: equal paid holidays, equal wages for men and women are to be generally established in the second four-year period. In addition it is realized that some enterprises will be hurt by increased competition. They may have to close down or be transformed; this would entail unemployment and resettlement problems. A special social fund has been created for that purpose which would share in the support expenditures of the country thus affected.

This description would not be complete without a mention of the Overseas Territories - this means

mainly French and Belgian Africa. These territories will be associated with the Common Market in this way: the metropolitan members will progressively abolish their tariffs against imports from the associated Overseas Territories; the territories, however, may continue to impose duties on imports from the Six in order to meet their development and industrialization needs. It should be mentioned that in order to facilitate this very development, a common fund has been created which over five years will allocate \$580 million to investments both social and economic in the Overseas Territories. The French territories are to be the main beneficiaries since out of this total they will receive some \$500 million, while the contribution of metropolitan France is only \$200 million.

* * * * *

We have already drifted into finance. This is a subject of some importance. In the first place, transfer restrictions are to be abolished progressively between the members and this, as the Treaty specifically indicates, involves elimination as far as possible of all obstacles to capital movements within the Market. Coupled with the freedom of establishment, this ought to be over the years a strong incentive to the creation of new enterprises in the location most suited to them.

In the second place, realizing that private capital movements may not satisfy all the urgent needs, a European Investment Bank has been established with a capital of one billion dollars, for the purpose of financing within the Community general investment projects of a public character as well as for the modernization or reconversion of industrial plants and, last but not least, for the development of underdeveloped areas, a clear hint to Southern Italy.

In the third place, the monetary implications of the Common Market are not always properly appreciated. True, there are escape clauses which allow in case of need for an interval of a year or two to separate the

various stages. True also, there are escape clauses which provide that if a country finds itself in a serious payment crisis, it can take safeguarding measures, and this probably means a return to some form of import restrictions. But the use of the escape clauses is subject to the approval of the governing bodies of the Community. Moreover, the country concerned is not free to choose the nature, extent or duration of these measures without the same approval.

This can only mean one thing: it is generally recognized by the members of the Community that they cannot have widely divergent fiscal and monetary policies. The Treaty provides for a continuous consultation on these matters. But, more effective even than consultations, the member countries will be subject to a considerable element of constraint by the mere fact that they have accepted to discard the traditional defensive weapon against the effects of unwise monetary policies in their relations with one another.

It is often said that a degree of convertibility not only within the Community but with the rest of the world is an indispensable condition for the proper working of the Common Market. This is undoubtedly true, but one may just as well say that the very existence of the Common Market will force upon its members fiscal and monetary policies which should result in external equilibrium, and hence in a certain degree of convertibility.

* * * * *

What then can we expect the consequences of this set up to be? Some of them would affect the 160 million people living within the area; some of them the rest of the world. So far as the area itself is concerned, the likely developments are clear enough. It is the ambition of the Six countries to facilitate the improvement of the welfare of the 160 million inhabitants by enlarging the

prospects of all of them. For many years, the European countries have looked at the United States with some envy and admired the effect of broader markets on the productivity of American industry. The purpose of the Treaty is to achieve the same thing in Europe. With a reasonable degree of monetary stability, with easy movements of people and capital, with progressive - and even more important - predictable reductions and abolitions of trade barriers, enterprises can plan ahead today. This means that they will plan, and already plan for more specialized, more efficient production, that they will invest in the hope of selling more widely. Some of them will suffer but, as I indicated before, this challenge has been consciously accepted.

What does it mean to the outside world? For some commodities, such as raw materials or foodstuffs which are not readily produced in the area or in the overseas territories, it obviously means increasing imports into Europe. If the optimistic forecast made by some of the advocates of the Common Market comes true, and if industrial production and standard of living continue to rise at the remarkably quick rate at which they have risen for the last five years, in these countries, this may mean that the demand for raw materials and foodstuffs will increase even more quickly in continental Europe than elsewhere. But that is only part of the picture. The challenge which the six European nations are accepting, they are also offering to the other countries. They will compete in their own territories with imports of manufactured goods and they will also do so in third markets.

It is impossible to state in general whether imports of manufactures will be subject to higher or lower tariffs in the end than they are now. This depends on the product in question; it depends also on the amount of trade which the specific manufacturer has now with high or low tariff countries. It can be said in very broad terms that Benelux has on the whole a low tariff, while France and Italy have higher ones, but

generalizations of this kind are of little significance in the long run. It is, therefore, not possible to know today whether at first the demand for manufactured goods imports will tend to increase soon or not. But two things seem certain. One is that the increase in income which we can expect to take place in Europe will, by itself, bring an increased demand for more manufactured products, including foreign manufactures. The second, is that it will be tempting for a number of foreign manufacturers to establish themselves in Europe, bringing their patents, their capital and their know-how, in order to enjoy a free access to a market not of 40 or 50 million people only but to a market of 160 million.

All of you know how many firms in the United States are already studying European conditions to find out where a plant would be best located. Many of you have probably also heard of the tendencies evidenced by those firms which are already established in Europe to prepare for specialization of their production in the different branches or subsidiaries which they may already have abroad, and this is truly in the spirit of the European Community. And incidentally, with more products to merchandize, more specialties to bring to the markets, the advertising trade should find a bright new field to exploit.

But that is not all. If one is thinking of expanding one's activities in six countries, one cannot help thinking also of extending them in third markets. There, the Common Market manufacturers will tend to compete with the traditional suppliers. If they really manage to lower their costs on the basis of more efficient production, their desire to export in third markets will be stimulated.

Some people have looked askance at the great demand for capital which Europe itself will inevitably experience and have concluded that the Six will not be a source of capital for investment abroad. Some Latin American countries seem to have expressed particular concern on this point. Unless, however, the Common Market brings

about so much disillusionment that it can be considered a failure, the very fact that it is a success should mean that, after a while at least, both income and savings will tend to increase in the Six countries, and that, therefore, investment opportunities outside Europe have a fair chance to attract capital of European origin. This ought to be particularly true if export trade is thereby facilitated. There is, thus, no reason to believe that the underdeveloped areas of the world - which are the great hope of future exporters - will be less of a market in the future than they are now simply because the European Community has come to life.

* * * * *

The picture, thus, seems to round itself up: stimulation within the area, including an invitation to foreign investment, increased import demand accompanied by increased exports. But is that all? To be fair, one should add one or two remarks. The future role of the European Economic Community in international trade will depend to a considerable degree on its ability to avoid high costs of production. This, in turn, implies that the cost of living, including the cost of agricultural products, should not rise unduly. This point is so obvious that it requires no comment, except to emphasize that every country knows how difficult it is to combine a low cost of foodstuffs to the consumer with sufficient incentive to encourage higher productivity in the fields.

The other condition is that the Community should not be satisfied with competition only within the area itself, that it should be accessible to trade negotiations with others and that it should seek to enlarge its own markets. This is exactly the problem involved in the present negotiations concerning the Free Trade Area.

The Free Trade Area would consist of the Six Common Market countries and the other members of the OEEC, i.e. the United Kingdom, Austria, Switzerland, the Scandinavian countries, Ireland, Portugal, Greece and Turkey.

A Free Trade Area differs from a customs union in that the Free Trade Area members retain their own tariffs vis-a-vis third countries while abolishing all internal trade restrictions within the Area.

Why did the Common Market not seem attractive to some members of OEEC? Various reasons can be given for various countries. For some, such as Switzerland, a simple customs union appears to mean giving up part of their political sovereignty rights. The United Kingdom, as the center of the Commonwealth, also considers a full participation in the Common Market incompatible with her present Commonwealth arrangements. The Scandinavian countries have been contemplating a customs union of their own for a long time, and are still not sure whether their specific problems would warrant a specific, meaning "Scandinavian," solution. Moreover, many countries have a relatively low tariff for manufactures and would prefer to keep their freedom of decision in this field, a freedom which is preserved in the Free Trade Area system.

All the OEEC countries, however, realized right from the beginning that a closer cooperation in the field of trade and economic policy with the Six would be highly desirable, and that a Free Trade Area might well be the proper way to achieve this goal.

The negotiators have run into some very intricate problems. The United Kingdom wishes to exclude the agricultural sector from the Free Trade Area, and at the same time wants to safeguard its preferential trade arrangements with the other Commonwealth nations. Denmark is torn between the desire to have orderly market arrangements for its agricultural products and wide outlets for its industries. Greece and Turkey suggest special dispensations, and additional financial assistance for underdeveloped areas. And for all prospective Free Trade Area members together, the problem of how to prevent low-duty imports into one country from being shipped duty-free to other members also presents a hard nut to crack from a merely administrative stand-

point. Moreover, just to mention one more stumbling block, diverging tendencies have made themselves felt within the Common Market itself. Some feel that the expectation of still wider markets makes it worthwhile opening the territory of the Six to foreign competition on free entry terms. Others feel that unless conditions are absolutely equal, as is the case within the Common Market, the game is not worth it.

The controversy has at times been quite bitter. Suggestions were heard to the effect that the Common Market would tend to turn into a protectionist area. Let me just comment that it is hardly fair to predict such developments at the very time when the members of the Community are preparing for the first lowering of their mutual tariffs. How this step will affect them may give us an indication of their future behavior. We cannot forget that Italy - traditionally considered rather protectionist - has liberalized its foreign trade over the last few years at a remarkable rate in spite of strong objections on the part of some of its own citizens. The beneficial effects of this liberalization have been convincing enough to erase the doubts expressed in earlier years. Only time will tell whether more or less liberal tendencies will dominate in the Common Market as a whole, and this in turn may depend in part on whether reciprocal concessions as between the Six and their trade partners can bring about an expansionist rather than a restrictionist climate.

It would be surprising, however, if some acceptable solution were not arrived at. The closer economic cooperation among Free Europe achieved over the last ten years in the framework of the Organization for European Economic Cooperation has - as Mr. Hoffman had so often predicted - proved profitable for each individual country and for world trade in general. A few figures may illustrate this point. Between 1948 and 1956, for instance, total imports of the OEEC countries from all other OEEC partners have risen from \$7.9 billion to \$19 billion: this represents an increase of almost 150%. In the same period, imports of the Free Trade Area from the

Common Market have almost trebled. Exports of the rest of the world, including the United States and Canada, to the Free Trade Area have also gone up substantially. It should be assumed that this upward trend would continue even more energetically if the market prospects were enlarged not only to 160 million people but to a territory of 240 million.

A second indication is given by the desire of the major industries in the Free Trade Area countries to arrive at some agreement. A joint statement by the industrial federations of the Scandinavian countries, Britain, Austria and Switzerland, recently released, provides evidence of their solidarity and common desire to establish the Free Trade Area.

What has been said of the beneficial effects of the Common Market applies equally to the Free Trade Area with its vastly greater human and material resources. There can be little doubt that both intra-European and world trade would gain from a higher degree of specialization, a more economical use of resources and consequently a higher income and demand for commodities and services of all kinds. No doubt either the incentives to international investment would be increased.

And if I may end on a more personal note, there can be no doubt that the ability and resourcefulness of the advertising profession are going to be called upon to help in this expansion. Ever greater flexibility and imagination will be necessary to carry old and new products to old and new markets. Appeals in many languages will be needed, adjusted to diversified national psychologies. This is still another challenge decidedly outside the scope of my competence - but decidedly within yours.

* * * * *

DISCOURS PRONONCE PAR M. LEONARD B. RIST, DIRECTEUR DU
SERVICE DES ETUDES ECONOMIQUES DE LA BANQUE MONDIALE
a la
SOCIETE D'ECONOMIE POLITIQUE, PARIS
Le 7 Février 1961



Monsieur le Président, Messieurs,

Vous devinez avec quel plaisir j'ai accepté la flatteuse invitation que m'a adressée votre Société. Le sujet qui m'a été suggéré, "La Banque Internationale et ses quinze ans d'expérience", m'a, au premier abord, paru simple.

J'ai vu cet organisme accroître le nombre de ses membres de 45 à 66; j'ai vu son capital nominal doubler; j'ai vu le montant total de ses prêts monter progressivement à 5 milliards 1/2 de dollars au bénéfice de 54 pays; j'ai vu le montant de nos obligations en circulation atteindre 2 milliards de dollars et nos réserves frôler les 500 millions.

Je pourrais ajouter quelques événements, tout aussi éloquentes, par exemple que ces trois dernières années, nous avons consenti environ 700 millions de dollars de prêts nouveaux par an; que la Banque a été appelée à jouer un rôle de conciliateur dans certains litiges d'ordre financier ou même d'ordre politico-économique. Ce faisceau de chiffres et de faits aurait, je crois, suffi à vous indiquer quelle a été la croissance de l'institution depuis le mois de mai 1946.

J'aurais pu aussi tenter de définir l'importance relative des mouvements de capitaux dont la Banque est directement responsable dans le flot mondial de ces mouvements. Vous auriez vu alors que vers 1950 notre contribution aux mouvements de capitaux internationaux bruts était de l'ordre de 2%: elle est aujourd'hui de l'ordre de 10%. Mais, à la réflexion, il m'a semblé que tous ces faits étaient exposés avec assez de précision dans nos rapports annuels pour que je n'y insiste pas davantage. J'ai pensé qu'un auditoire comme celui-ci s'intéresserait avant tout aux problèmes que nous avons eu à résoudre et qui se posent encore à nous, et qu'en vous les soumettant - et en vous exposant comment ces problèmes ont changé d'aspect au cours des années - nous pourrions en quelque sorte passer en revue certains des traits essentiels de l'évolution économique et financière du monde depuis 15 ans.

Ces problèmes, en effet, peuvent être, avec un minimum d'arbitraire, classés en trois grandes catégories:

1. Quels moyens de financement la Banque a-t-elle cherché pour elle-même;
2. Quels genres de projets a-t-elle financés;
3. Finalement et surtout, à quels pays a-t-elle accordé des crédits.

J'espère vous montrer que dans chacun de ces domaines les problèmes qui se posent aujourd'hui à nous sont un peu différents, ou parfois très différents de ceux qui se posaient à l'origine.

I. Et d'abord, nos moyens de financement. La Banque est dotée d'un capital qui vient d'être porté à 19.300 milliards de dollars. Lorsque ses fondateurs se sont réunis à Bretton Woods en 1944, trois choses étaient claires:

1. les besoins financiers des pays dévastés par la guerre allaient être considérables,
2. les pays sous-développés dont l'évolution avait été interrompue par la crise et par la guerre avaient également des besoins considérables,
3. enfin, les marchés financiers, fournisseurs traditionnels de capitaux, avaient perdu confiance dans le crédit extérieur.

Deux pays seulement parmi ceux qui avaient pris part à la guerre pouvaient prétendre avoir un crédit intact sur le marché de New York, le Canada et, bien entendu, les Etats-Unis. Parmi les neutres, le Portugal et la Suède n'avaient pas besoin d'emprunter et la Suisse regorgeait elle-même de capitaux. Même l'Angleterre avait dû faire appel à un prêt direct du gouvernement des Etats-Unis pour faire face à ses besoins. A vrai dire, aucun marché au monde n'aurait pu fournir trois milliards sept cent cinquante millions de dollars, montant du prêt que négocia la Grande-Bretagne en 1946 avec le gouvernement américain (sans parler de l'emprunt contracté au Canada).

Le financement de l'étranger se faisait essentiellement par l'intermédiaire d'une agence du gouvernement des Etats-Unis, l'Export-Import Bank, à qui la Trésorerie fournit ses moyens d'action: c'est à elle que s'adressa la France en premier lieu. Autrement dit, le marché financier de New York, seule source importante de capitaux à l'époque, inquiet des effets de la guerre sur les pays européens et se souvenant des effets de la grande crise sur la plupart des autres emprunteurs étrangers, n'était pas prêt à satisfaire des besoins dont tout le monde reconnaissait néanmoins l'urgence. De là, l'idée de substituer au crédit direct de l'emprunteur la caution d'un organisme international qui apporterait automatiquement le crédit des pays créanciers, en particulier celui des Etats-Unis. La fonction de la Banque a été comprise d'abord comme une fonction de garantie, mais comme on lui avait donné l'autorisation d'emprunter pour son propre compte, quitte à reprêter ensuite, c'est à cette formule, techniquement plus simple, que l'on a toujours eu recours en pratique.

C'est donc à peine une exagération que de dire que la partie essentielle du capital de la Banque est son capital dit de garantie plus encore que les fonds que ses actionnaires lui ont apportés. A l'origine, ce capital de

garantie s'élevait à 6,1 milliards: avec l'accès de nouveaux pays il se montait à 7,9 milliards, puis, à la suite de l'augmentation de capital de 1959, il a finalement été porté à 17,9 milliards.

Les contributions en espèces qui sont également une source de financement sont passées progressivement de 1,2 milliard à 2 milliards. A vrai dire, une faible fraction seulement de cette contribution en espèces devait être versée en dollars ou en or et le reste devait être versé dans la monnaie nationale des états actionnaires. Les Etats-Unis ont immédiatement mis à la disposition de la Banque les 570 millions qui représentaient leur part, mais les autres pays, même le Canada, ont bénéficié de certaines clauses de sauvegarde et ont étalé la libération de leur capital sur une période considérable. Aujourd'hui, les souscriptions espèces du Canada et des pays européens dits créanciers sont effectivement disponibles, mais les pays moins fortunés qui ont libéré leur part ne sont pas très nombreux. Il reste toujours dans les souscriptions espèces en monnaies nationales une somme de 400 millions à laquelle la Banque n'a pas encore eu recours soit parce que l'exportation de ces fonds risquerait de créer au pays actionnaire des difficultés de balance de paiements, soit parce qu'il s'agit de monnaies non convertibles et que les emprunteurs de la Banque ne pourraient pas aisément les utiliser.

Mais c'est essentiellement sur le marché financier que la Banque a trouvé ses moyens d'action: et les bailleurs de fonds de la Banque s'en sont surtout remis au crédit des pays créanciers actionnaires de la Banque. En effet, le capital de garantie peut être appelé pour faire face aux obligations encourues par elle. Soyons même tout-à-fait francs: jusqu'à tout récemment c'est essentiellement sur le crédit du gouvernement des Etats-Unis que se fondait le crédit de la Banque lorsqu'elle empruntait. Peu à peu la situation est en train de changer et avec le raffermissement des monnaies européennes, ce n'est plus seulement le crédit américain et canadien mais aussi celui des principales nations créancières sur lequel se fondent nos bailleurs de fonds.

Autre évolution, celle-ci plus aisée à préciser: c'est sur le marché de New York que la plupart de nos émissions d'obligations ont été placées. Dès l'origine cependant, la Banque s'est préoccupée d'émettre ses titres sur d'autres places: dès 1948 elle plaçait des obligations en Suisse qui, bien que n'étant pas un pays membre, a accepté de souscrire à nos emprunts à un rythme quasi annuel. En 1951 nous émettions nos premières obligations en Grande-Bretagne, en 1952 au Canada, en 1954 en Hollande, en 1958 en Allemagne et en 1959 en Belgique. Le montant de ces émissions n'était pas toujours

considérable mais elles se sont fréquemment répétées et elles sont libellées dans la monnaie du pays prêteur. A vrai dire, nos émissions en monnaies autres que le dollar et aujourd'hui en circulation ne représentent encore que 400 millions de dollars sur un total en circulation de 2,2 milliards de dollars, mais nous savons qu'une partie importante de nos obligations en dollars sont effectivement détenues par des porteurs non américains: certaines même de nos émissions ont été réservées aux souscripteurs non américains et aujourd'hui 50% des souscriptions à nos emprunts proviennent d'autres pays que les Etats-Unis. Mais la Banque cherche toujours à diversifier ses sources de capitaux. Les obstacles ne sont pas tous levés: le marché suisse reste relativement étroit et dans la plupart des autres pays d'Europe, ou bien les taux d'intérêt restent sensiblement plus élevés qu'aux Etats-Unis, ou bien les émissions internationales sont ralenties par la réglementation existante. Le plus souvent les deux obstacles se trouvent réunis.

Sur un autre point encore tout différent, une évolution marquée s'est fait sentir. En 1946, la plupart des états, sauf le Canada, n'étaient pas en état de faire appel directement au marché. En 1947, l'Australie, la Norvège et la Hollande ont pu placer des émissions relativement modestes à New York, mais ce n'est qu'à partir de 1954 que des noms comme la Belgique, le Danemark, l'Italie, la France, la Communauté Charbon Acier, le Japon et l'Afrique du Sud se sont trouvés sur les prospectus d'émission. Les pays du Commonwealth eux-mêmes étaient soumis au rationnement sur le marché de Londres. La Banque s'est assigné pour tâche de familiariser à nouveau le marché avec des signatures que celui-ci avait quasiment oubliées. Dès avant 1950, elle s'est efforcée de vendre au marché financier, en particulier aux banques, les obligations à court terme qu'elle possédait dans son portefeuille. Ces ventes se font soit à l'origine du prêt, sous forme de "participations", soit après que le prêt a été consenti, sous forme de "cessions de portefeuille".

Elle a éprouvé plus de difficultés à trouver preneur pour de longues échéances: elle y est parvenue pour des sommes importantes mais dans des cas encore peu nombreux et seulement au cours des deux dernières années. A vrai dire, le marché est différent selon les échéances: si les banques commerciales sont disposées à prendre du papier allant jusqu'à cinq ans environ, ce sont les sociétés d'assurances et fonds de retraite qui sont les principaux preneurs d'obligations à long terme. Mais le fait important est que ces obligations sont achetées sans recours à l'encontre de la Banque: c'est la signature même du débiteur qui est acceptée par le nouveau créancier.

Dans quelques cas aussi, des opérations conjointes ont été menées à bonne fin: l'une est un prêt de la Banque, l'autre est une émission sur le marché. C'est ce qui a été fait par exemple pour l'Australie et pour le Japon. Dans ce genre d'opérations, le marché privé serait de toute façon trop étroit pour permettre à l'emprunteur de couvrir l'ensemble de ses besoins. Ce serait une simplification que de dire que la Banque, dans ce cas, prend à sa charge le financement qu'un marché trop étroit ne pourrait assumer. Il serait plus juste de dire que grâce à la preuve de confiance que lui donne la Banque, l'emprunteur a plus de latitude encore pour placer son émission sur le marché privé.

La Banque se targue à juste titre d'avoir vendu au marché un montant croissant de son portefeuille sans sa garantie. Le total de ces ventes au cours des années atteint 800 millions ⁽¹⁾ et il convient d'ajouter qu'ici aussi l'internationalisation croissante joue son rôle. Plus de la moitié de cette somme a été trouvée en Europe.

En résumé, grâce à l'amélioration de la situation économique dans le monde, la Banque a pu d'abord utiliser la majeure partie de son capital souscrit en espèces: puis diversifier les monnaies dans lesquelles sont libellées ses obligations: puis faire souscrire de plus en plus largement à l'extérieur des Etats-Unis des obligations même libellées en dollars: puis réintroduire sur les marchés financiers les signatures que ceux-ci avaient oubliées et ceci non seulement sur le marché américain mais sur les marchés européens.

Quand j'aurai ajouté que tous nos débiteurs nous ont payé ponctuellement et que grâce à cela nous avons pu accumuler des réserves de l'ordre de \$500 millions dont une partie d'ailleurs sert à financer de nouvelles opérations de prêt, je vous aurai donné un tableau à peu près complet de notre situation financière et de ses progrès au cours des années écoulées.

II. Passons maintenant au deuxième ordre de problèmes, à savoir, au genre de projets que nous avons financés. Peut-on discerner une évolution dans ce domaine? A vrai dire, il y en a une mais d'ordre plus subtil que celle que je viens de retracer.

(1) Avec garantie 100 millions supplémentaires.

Il faut mettre à part, pour clarifier l'exposé, les prêts consentis la première année aux pays en cours de reconstruction; la France, la Hollande, le Danemark et le Luxembourg. Il s'agissait d'une somme importante, près de 500 millions de dollars, et qui a été consacrée au financement du programme d'importation dicté par la reconstruction de l'industrie de ces pays après la guerre. Le problème consistait simplement à s'assurer que les marchandises financées par nous contribuaient effectivement au redressement de l'économie. S'ils ont comporté quelques matières premières, du pétrole, par exemple, ils ont essentiellement permis l'importation d'équipements industriels. Déjà une de nos préoccupations maîtresses était visible: la Banque estimait dès lors que son objet principal était de financer l'investissement et non pas la consommation. Mais, mis à part ces programmes généraux, la Banque s'est consacrée à financer l'investissement dans des pays soit sous-développés, soit en cours de développement.

Inévitablement, dès l'origine, et aujourd'hui encore, l'infrastructure joue un rôle considérable. Voici comment se distribuent nos prêts de développement:

Electricité	1 milliard 600 millions
Transports	1 " 700 "

(ceci comprend le financement de pipelines, dont 50 millions pour le Sahara).

Agriculture et forêts ...	460 millions
Industrie	870 "
Divers	200 "

L'accent mis sur l'infrastructure vous paraîtra, j'en suis sûr, tout naturel. Ceci n'a pas changé au cours des années. Un point cependant mérite peut-être d'être relevé. Il arrivait fréquemment à l'origine que la construction d'un barrage ou d'une usine électrique soit rendue indispensable par l'insuffisance évidente des moyens de production existants. De longues années de crise, suivies d'années de guerre pendant lesquelles même les pays qui n'y avaient pas pris une part active, avaient été dans l'impossibilité de se procurer des équipements de base, avaient dans bien des cas créé de véritables goulots d'étranglement. Aujourd'hui nous avons dans un même pays accordé deux, trois ou même quatre prêts pour l'électrification, nous pouvons souvent penser au développement de demain plutôt qu'aux besoins insatisfaits d'aujourd'hui. Exemple: Il nous arrive maintenant d'ajouter dans le montant de nos prêts à l'énergie les frais entraînés par la préparation technique du stade suivant d'expansion du même réseau.

Dans le domaine des transports, on peut déceler une évolution assez semblable. Au Brésil, au Mexique, au Pakistan, notre premier prêt aux chemins de fer a servi essentiellement à remettre en état de marche des réseaux dont l'usure était extrême. Au Mexique nous sommes allés jusqu'au remplacement de la voie ferrée elle-même. Au cours des toutes dernières années, nous avons pu financer la modernisation de l'équipement ou l'amélioration des services. Un deuxième prêt destiné aux chemins de fer pakistanais, par exemple, a servi à accroître leur capacité de transport et non pas la rétablir.

Même impression dans le domaine des routes. La plupart de nos prêts colombiens, par exemple, ont servi à établir des liens entre les grandes vallées du pays, jusqu'alors pratiquement isolées les unes des autres. Mais dans certains cas, en Ethiopie, par exemple, notre premier prêt a servi à remettre en état un réseau routier trop longtemps négligé, tandis qu'un deuxième prêt doit permettre à la même Ethiopie de construire des routes de pénétration: il s'agit bien d'expansion et non plus de remise en état.

Même remarque pour les ports. Le premier prêt que nous avons consenti au port de Callao, au Pérou, permit essentiellement de réduire le temps excessif absorbé par les embarquements et débarquements: un deuxième prêt vint plus tard agrandir le port lui-même. A Guayaquil, en Equateur, nous prêtons pour un nouveau port, destiné à faire face au trafic à venir.

Dans le même domaine agricole aussi on peut noter cette même tendance à regarder vers l'avenir plutôt qu'à réparer les dommages du passé. Nous avons prêté à l'Australie il y a quelques huit ans pour permettre à son agriculture d'acquérir un outillage moderne qui lui faisait défaut depuis avant la guerre, mais plus récemment nous avons prêté à l'Uruguay pour le développement futur de son élevage. Nous venons de prêter au Kenya pour la mise en valeur de terres nouvelles.

Nous avons donc de plus en plus souvent l'occasion de nous préoccuper du développement de demain et nous désirons y contribuer non seulement par notre appui financier mais également par notre appui technique. Vous connaissez les missions générales que nous avons envoyées dans plusieurs pays pour les aider à préparer un programme ou un plan d'expansion. De la Colombie à la Thaïlande en passant par le Tanganyika. Tout récemment le Fonds Spécial des Nations Unies nous a demandé de nous charger, en accord avec le gouvernement argentin, de

faire une étude approfondie des transports et de l'énergie en Argentine. Il faut s'attendre à ce que de ces études sorte un plan d'investissement pour chacun de ces deux secteurs. Ayant été établi en accord avec le gouvernement, il aura des chances sérieuses d'être mis en oeuvre.

Toujours sous le signe de l'assistance technique, nous avons créé l'Institut de Développement Economique où des fonctionnaires venant de pays en cours de développement se réunissent pour échanger des vues sur leurs problèmes communs et les étudier avec nous.

Je ne vous étonnerai pas cependant en vous disant qu'un de nos soucis les plus graves est de déterminer dans chacun des pays à qui nous sommes désireux de prêter quels sont les secteurs, et dans ces secteurs quels sont les projets auxquels nous pouvons donner notre assistance. Je voudrais pouvoir vous dire que nous avons trouvé des règles d'application universelles qui nous permettent de déterminer les priorités. Cela était facile quand il s'agissait d'éliminer des goulots d'étranglement, cela devient beaucoup plus délicat le jour où un choix s'impose, un choix qui ne peut être effectué qu'en fonction de projections d'avenir.

Certains pays sont en état de prévoir leur propre évolution et par conséquent leurs besoins de demain avec un minimum d'assurance. Dès lors que l'on exclut le danger d'une guerre nouvelle ou d'une crise mondiale profonde, on peut se faire une opinion sur la croissance du revenu et de l'épargne, la manière dont ils seront distribués et les biens que les consommateurs préféreront, les industries qui seront appelées à croître le plus vite. On peut, avec une marge d'erreur assez modeste, prévoir le taux de croissance des besoins en énergie ou en transports. On peut, en faisant quelques hypothèses raisonnables sur les moyens de financement dont pourra disposer le pays, imaginer dans les grandes lignes tout au moins, où l'investissement public et où l'investissement privé devront se diriger.

Dans une économie complexe, les constantes sont plus nombreuses peut-être et les études faites sur place sont en général faciles à examiner, ou même à vérifier le cas échéant. Mais la tâche devient plus délicate dans des pays vraiment sous-développés: les éléments dynamiques y sont mal connus, les stimulants à l'activité individuelle ou même à la consommation sont différents de ceux que nous connaissons dans les pays développés. Il est certainement plus facile de prévoir les besoins d'avenir de l'Argentine où tant de travaux savants ont été intelligemment coordonnés, qu'en Equateur, par exemple, ou en Iran, ou, à plus forte raison, dans un pays d'Afrique Noire.

Et si vous me demandiez quel est aujourd'hui le problème de technique économique sur lequel nous nous penchons avec le plus d'angoisse, ce serait incontestablement celui de l'évaluation intelligente des priorités de secteurs dans une économie en cours de développement.

Je ne vous ai pas parlé de l'étude approfondie que la Banque consacre aux projets particuliers qu'elle se prépare à financer. Vous en connaissez les aspects principaux: s'il s'agit d'un projet rentable en soi, quelle est la situation financière de l'entreprise? Le niveau des tarifs est-il suffisant pour en assurer l'équilibre? Et, bien entendu, quelle est la valeur technique des études faites par les ingénieurs qui en ont fait les plans? Ces problèmes financiers et techniques, nous pouvons n'en pas parler aujourd'hui. Le problème économique est, vous l'imaginez, plus délicat. Quel effet aura le projet sur l'économie prise dans son ensemble? S'il est difficile de prévoir où la demande se portera demain, il est tout aussi difficile d'évaluer le bénéfice, les avantages directs et indirects qu'apportera un projet particulier à l'économie du pays. En fait, il suffira peut-être que je dise aujourd'hui que dans les pays sous-développés notre expérience a souvent été que les services rendus par les projets financés par nous se révélaient à l'usage plus importants que nous ne l'avions prévu. On peut probablement dire que dans neuf cas sur dix la production des usines électriques auxquelles nous avons apporté notre aide s'est révélée supérieure aux prévisions. Et dans la mesure où les statistiques existent, il semble que le trafic routier qui emprunte les réseaux que nous avons aidé à améliorer ou à mettre en oeuvre soit également supérieur aux prévisions d'origine.

Il est peut-être bon de préciser ici que lorsque nous tentons d'évaluer les avantages économiques qu'un projet apportera au pays emprunteur, nous nous préoccupons infiniment plus de la contribution que le projet apportera au revenu national que de son effet sur la balance des paiements. Certes, une industrie d'exportation, une production agricole destinée également à l'exportation, constituent des projets attrayants. La production de manganèse au Gabon, ou de minerai de fer en Mauritanie donneront à ces pays des ressources de change fort importantes. Nous n'y sommes pas indifférents. Lorsqu'une industrie peut, sur la base des ressources locales, produire à meilleur marché que le pays ne pourrait importer, ici encore l'attrait est grand. (C'est le cas, par exemple, de l'industrie de l'acier aux Indes.) Mais la part considérable que représente l'énergie et les transports dans les

prêts consentis par nous indique assez le prix que nous attachons à l'accroissement de l'activité économique interne.

Peut-être devrais-je ajouter un mot sur le financement des industries. Nous nous sommes toujours abstenus de financer des industries d'Etat. Il y a à cela deux raisons: en premier lieu, nos statuts nous enjoignent de ne pas prêter lorsque le financement pourrait être obtenu ailleurs. Dans bien des cas, le marché privé intérieur ou étranger pourrait fournir les capitaux nécessaires aux industries d'Etat. En second lieu, dans la plupart des pays sous-développés le manque de moyens financiers est un problème constant pour les gouvernements. Ils peuvent difficilement espérer financer à la fois l'infrastructure et leurs dépenses courantes, y compris celles qui contribuent au développement, et, outre cela, consacrer des sommes importantes à des investissements que le capital privé pourrait désirer entreprendre. Il y a là un problème d'économie des ressources et nous n'avons pas eu jusqu'à présent à regretter notre politique.

Par contre, pour financer l'entreprise privée, nous avons à notre disposition tout un arsenal de moyens. En premier lieu, lorsque l'entreprise est considérée par son gouvernement comme suffisamment importante pour mériter sa garantie, nous pouvons lui prêter. C'est ce que nous avons fait aux Indes pour l'acier, par exemple. Lorsque les entreprises sont de taille modeste ou moyenne, nous avons souvent eu recours à des établissements intermédiaires, les banques de développement ou banques industrielles qui servent de relai pour l'utilisation des lignes de crédit que nous leur accordons. Lorsqu'une des entreprises qui a recours à elles a besoin d'importations, les équipements étrangers sont achetés grâce à nos fonds.

Mais un certain nombre d'entreprises hésitent à recourir directement ou indirectement à la garantie de l'Etat. Il peut s'agir soit d'entreprises locales qui cherchent du capital étranger, soit d'entreprises étrangères qui cherchent à s'établir dans le pays ou à étendre leurs opérations. C'est pour elles que fut créée en 1956 la Société Financière Internationale. Dotée d'un capital modeste, indépendant de celui de la Banque, elle a cependant le même Conseil d'Administration. Jusqu'à présent elle a consenti 44 millions de dollars en 39 prêts répartis entre 17 pays. Ici, parfois, les participations actions du capital privé ont été importantes.

En résumé, dans les projets que la Banque a été amenée à financer, on constate une triple évolution. En premier lieu, les besoins urgents de l'après-crise et de l'après-guerre font place de plus en plus à des entreprises de développement proprement dites: ceci est un témoignage du progrès économique accompli dans le monde depuis 15 ans. En second lieu, du moment où les projets que nous étudions cessent d'avoir un caractère de grande urgence, nous sommes plus à même de tenter un choix parmi ceux qui nous sont proposés et de plus en plus, nous l'espérons, ce choix pourra s'inscrire dans l'ensemble d'un programme qui lui-même correspond à une vue précise du développement ultérieur du pays emprunteur. En troisième lieu, les méthodes de financement deviennent de plus en plus variées. Des projets agricoles et industriels viennent s'ajouter de plus en plus fréquemment à nos préoccupations plus fondamentales, et c'est pour faire face à leurs conditions particulières que de nouvelles formes de financement - relai par les banques industrielles ou agricoles, ou création d'une société financière internationale - se sont imposées à nous.

III. Nous en arrivons au troisième groupe de problèmes: à quel pays va notre appui financier? Et d'abord quel était notre mandat? C'était de prêter à ceux qui ne pouvaient avoir recours au marché privé, mais qui néanmoins étaient aux yeux de la Banque capables de faire face au service de leur dette à son égard. Il s'agissait, si je puis dire, de la "zone grise" qui s'échelonnait entre le Canada qui n'avait pas besoin de nous, et les pays où les perspectives d'avenir étaient si obscures qu'ils relevaient de l'assistance gratuite plutôt que du crédit international. Pour être juste, il faut ajouter quelques pays qui n'avaient pas honoré ou réglé leurs dettes extérieures anciennes. La Banque s'est refusée à les aider tant que ces règlements n'avaient pas eu lieu. Mais comment, dans cette "zone grise", juger la capacité de remboursement d'un pays?

Avant d'en venir aux questions précises, permettez-moi de vous rappeler que 54 pays ont bénéficié de nos prêts. Parmi ceux-ci, dans l'ordre où nous leur avons prêté, figurent la France, le Danemark, le Luxembourg, les Pays-Bas, la Belgique, l'Australie, l'Italie, l'Afrique du Sud, le Japon, l'Autriche, la Norvège - autant de pays industrialisés et dont le passé financier et économique pouvait inspirer confiance. C'est au moins ce que nous disons aujourd'hui après 15 ans de reconstruction et de progrès.

Mais ce serait simplifier le problème que de dire qu'aucune question ne se posait à leur égard à l'époque où nous leur avons prêté. L'énormité de leurs besoins, s'il s'agissait de reconstruction, la faiblesse de leurs réserves monétaires à l'époque où le premier prêt a souvent été consenti, la fragilité de certaines balances de paiements, expliquent pourquoi nous avons dû nous pencher sérieusement sur les problèmes même des pays industrialisés. Les choses ont changé au cours des années, ainsi que je l'ai indiqué au début, mais aujourd'hui encore le Japon a de la peine à trouver à l'extérieur les capitaux qu'il voudrait investir chez lui.

La situation de presque tous ces pays s'est améliorée sensiblement depuis notre premier prêt et la garantie de la France pour les prêts que nous avons consentis ces dernières années au Sénégal, à l'Algérie, au Gabon, à la Mauritanie, n'a fait l'objet d'aucune discussion. Pour nos prêts au Congo et au Ruanda-Urundi, la garantie de la Belgique n'a pas posé plus de questions, ni celle de la Grande-Bretagne lorsque la Rhodésie ou le Nigéria ont fait appel à nous.

Si les pays industriels posent des problèmes, cela est encore plus vrai pour les 43 pays sous-développés à qui nous avons prêté. Et je comprends dans ce chiffre les états qui ont bénéficié de la garantie de leur métropole, car nous avons toujours espéré qu'ils pourraient faire face à leurs obligations seuls, sans avoir recours au garant.

La première question à résoudre est de savoir pourquoi l'Etat désire emprunter. L'épargne intérieure est-elle trop faible? Le rythme des investissements a-t-il besoin d'être accéléré? L'investissement en question est-il démesurément important pour un état relativement petit? Le produit national se trouvera-t-il suffisamment accru du fait non seulement de l'investissement à financer mais de l'ensemble de ceux qui s'effectuent concurremment pour que l'épargne elle-même puisse s'accroître? Il s'agit là, bien entendu, de l'épargne qui pourra être consacrée au remboursement du prêt, en fait de l'épargne qui pourra être mobilisée soit sous forme d'amortissement dans l'entreprise financée, soit sous forme de recettes au budget du pays débiteur.

Telle est la première question. Elle n'est pas toujours aisée à résoudre. A vrai dire, la croissance économique du pays débiteur au cours des années récentes fournit assez souvent une sérieuse indication. Il est rare qu'une croissance continue s'interrompe sans causes extérieures précises sinon prévisibles. Le passé, y compris le taux de croissance de la population, autant que ce que l'on peut deviner des

perspectives d'avenir, fournissent les seules bases sur lesquelles l'on peut juger si le pays débiteur verra sa capacité d'épargne s'accroître.

Deuxième question, non moins importante: les prêts de la Banque étant consentis en monnaies étrangères, le transfert du service de ces prêts pose un problème de balance des paiements. En supposant que l'épargne interne ait pu être mobilisée, comment ce transfert pourra-t-il être effectué? L'analyse de la balance des paiements passée fournit deux éléments sérieux. La composition des recettes extérieures en est un - et je parle aussi bien des transactions commerciales que des invisibles. L'accroissement presque fabuleux des recettes de tourisme du Mexique au cours des dix dernières années a de loin dépassé l'accroissement de ses recettes d'exportation. Mais dans la plupart des pays les transactions commerciales restent l'élément principal. De plus, certains pays dépendent essentiellement de une, deux ou trois matières premières ou produits agricoles. Les variations violentes et parfois dramatiques subies par les cours du café, du sucre, du caoutchouc par exemple, au cours des années récentes ont un double effet: d'une part sur les recettes extérieures et d'autre part sur le revenu des producteurs, donc sur le revenu de la nation et sa capacité d'épargne.

De l'autre côté de la balance, la structure des importations fournit souvent des indications intéressantes. Une illusion trop fréquente consiste à croire qu'il y a quelque chose d'absolument fixe dans les besoins d'importation. Les pays qui sont gros importateurs d'équipement parce que leur industrialisation est déjà en cours ont là un élément de souplesse souvent considérable. Les variations de revenus entraînées par les variations des exportations ont dans certains cas des répercussions singulières sur la demande d'investissements nouveaux, et il peut y avoir là un élément d'ajustement automatique, bien que très imparfait, des besoins de paiement aux recettes extérieures. L'analyse du passé peut sur tous ces points fournir une base à ceux qui s'efforcent de faire des prévisions d'avenir, et quand nous parlons d'avenir, nous parlons, bien entendu, d'un avenir à cinq, dix ou quinze ans.

Ainsi, un jugement doit être porté sur les perspectives des grandes matières premières, sur la demande internationale de ces produits et sur l'existence ou l'absence d'ajustement automatique probable dans l'ensemble de la balance des paiements. Est-il besoin de dire qu'aussi bien dans les projections concernant le produit national que dans celles concernant la balance des paiements aucune règle fixe ne peut être établie. La situation de chaque pays, son histoire et ses perspectives d'avenir restent

inévitablement différentes de celles de ses voisins.

Mais il y a une troisième question sur laquelle l'histoire, non plus économique mais politique et sociale, peut seule guider le jugement. Les politiques financières et économiques qu'adoptera le pays débiteur sont-elles de nature à faciliter les ajustements en cas de crise, à faciliter la croissance d'une manière générale, ou sont-elles de nature à les contrarier? Et surtout, si elles sont favorables, seront-elles durables? Je mentionne ce point seulement en passant, parce qu'il se passe de commentaires, non point parce qu'il est moins important que les autres.

Reste une dernière question. Quelle est la charge de la dette extérieure actuelle et quelle sera cette charge à l'avenir? Le service de la dette extérieure prive le pays débiteur de la disposition d'une partie de ses recettes de change, à moins, bien entendu, que de nouveaux crédits ne lui soient consentis soit en compensation, soit même en excédent. Or, la Banque n'a pas le monopole et ne désire pas avoir le monopole des crédits extérieurs. D'innombrables autres sources de crédit sont à la disposition des emprunteurs. Pendant les premières années qui ont suivi la guerre, il s'agissait essentiellement des agences du gouvernement américain, mais dès 1949-50 les pays européens ont pu contribuer de façon substantielle au financement international. Aujourd'hui de nouveaux organismes internationaux ont vu le jour, la Banque Européenne et la Banque Panaméricaine.

A vrai dire, l'endettement des pays sous-développés au cours des dix dernières années s'est accru de façon considérable et la proportion que le service de ces prêts absorbe dans leurs recettes extérieures s'est également accrue. Dès lors que ces recettes restent stables, ou baissent, des rigidités dangereuses sont appelées à se produire. C'est ainsi que de 1949 à 1958 l'endettement de 21 pays à revenu faible, sur lesquels nous avons des éléments précis, a passé de quelques deux milliards de dollars à environ six milliards et demi. Et le service de cette dette s'est accru souvent plus que proportionnellement par suite du développement des crédits à moyen terme.

Tels sont les principaux éléments dont nous tentons de tenir compte pour déterminer la capacité d'emprunt de nos pays membres. Mais comme je l'ai dit, les pays sous-développés ont dans leur ensemble accru leur endettement de façon considérable. Pour certains d'entre eux, décider qu'une large marge de crédit reste disponible est devenu un jugement difficile à porter dans un monde où les matières premières

restent stagnantes, où les besoins de développement se précisent, où le recours aux politiques inflationnistes persiste par endroits à ébranler l'équilibre des balances des paiements. Le problème de l'assistance aux pays sous-développés a ainsi progressivement changé d'aspect. Rien n'empêche la Banque de continuer à fournir des prêts d'investissements aux pays qui sont capables de les rembourser, mais elle n'a pas pu s'empêcher de constater que pour certains autres pays dont le crédit est ou ébranlé ou menacé, au moins à long terme, l'effort de développement risquerait d'être interrompu si seuls des prêts de forme traditionnelle étaient mis à leur disposition.

Le soutien donné par la France aux pays de la Communauté, le soutien donné par l'Angleterre à ses territoires dépendants, le soutien donné par le gouvernement des Etats-Unis à titre bilatéral à plusieurs pays en cours de développement a souvent pris la forme de dons. De là à penser qu'un organisme international devrait être créé qui puisse soutenir le progrès économique des pays faibles dans des conditions moins onéreuses que les prêts classiques il n'y avait qu'un pas. Il a été franchi en 1960 avec la création de l'Association Internationale de Développement.

Je ne vous la décrirai pas en détail. Vous en connaissez certainement l'essentiel. Les pays membres de la Banque se constituent en coopérative où les pays créanciers apportent des contributions, en réalité sans esprit de retour; les pays débiteurs et bénéficiaires éventuels n'apportent que des contributions nominales. Avec un capital d'un milliard de dollars, dont environ 750 millions deviendront rapidement disponibles, l'Association Internationale pourra faire des opérations de prêts à terme très long et à intérêt bas ou nul. La charge que représentera le service de ces prêts sur l'épargne intérieure et les paiements extérieurs sera donc négligeable.

Il serait à peine exagéré de dire que nous espérons tous fermement voir l'Association Internationale rapidement dotée de ressources accrues, et qu'elle prendra le relai de la Banque Internationale dans les pays trop faibles pour que celle-ci ait pu leur prêter et dans les pays dont la capacité de remboursement s'épuise mais dont les besoins d'investissements et de développement restent si importants que l'aide étrangère est indispensable.

Tout le tableau que j'ai brossé se résume en réalité dans cette nouvelle création: des pays créanciers assez sûrs d'eux-mêmes aujourd'hui pour se proclamer exportateurs de capitaux même sans retour et des pays débiteurs où le progrès accompli depuis quinze ans a modifié le caractère

de leurs besoins. Pour quelques-uns cependant ce progrès a été accompagné d'un endettement trop élevé: pour ceux qui ne pourraient plus prudemment emprunter des ressources nouvelles viendront les aider; des combinaisons de prêts classiques et de prêts de l'Association ne sont pas exclues - loin de là. Elles sont même en préparation. En outre, des pays qui jusqu'à présent n'avaient pu avoir accès aux ressources de la Banque parce qu'ils se situaient au-dessous de la "zone grise" devraient pouvoir faire appel à l'Association Internationale de Développement: assurance de continuité et d'élargissement à la fois.

Tels sont, Messieurs, les principaux problèmes auxquels nous avons dû tenter de répondre au cours de notre existence. Ils sont variés, mais plus variés encore qu'il ne paraît dans la synthèse que je viens de présenter, car ils changent d'aspect d'année en année, de pays en pays, de projet en projet. Mais ils s'inscrivent tous dans le même cadre - internationalisation de plus en plus accentuée, elle dicte le nombre de nos états-membres, aussi bien que l'origine de nos ressources - progrès économique dans le monde, il rend nos créanciers plus nombreux et plus entreprenants et nos débiteurs capables de regarder plus loin dans l'avenir - élargissement de nos tâches, à la fois par l'aide à l'entreprise privée et par l'assistance technique et enfin et surtout par l'espoir nouveau apporté par l'Association Internationale de Développement.

Leonard B. Rist

THE CYCLE ABROAD

National Industrial Conference Board

Houston, Texas, March 23, 1961

Perhaps you will not accuse me of being presumptuous if I assume that the reason why I was invited to address this meeting is that, by profession, I have to keep abreast of developments the world over, and that in addition I am called upon to go to Europe once or twice a year.

As a matter of fact, I have just returned from Europe and although I did not visit all or even a majority of the OEEC countries, I have come back with a few impressions which may be of some interest to you. We shall perhaps start with Europe rather than with the rest of the world, not merely because impressions are fresh in my mind but also because Europe is your largest customer. The next largest are Latin America and Canada then Asia excluding Japan, Japan and Africa, in that order.

Nobody in Europe doubts that there is interaction between the cycles in the U.S. and the cycles in Europe. As a matter of fact, I heard more concern expressed on the potential effects of the recession in this country than ever before.

The rest of my exposition will be largely centered around the forces making for an autonomous economic growth in Europe, but it would be unfair not to color what will follow by pointing out this basic pre-occupation.

There are few who are not aware of the levelling off of industrial activity in Great Britain during the last quarter of the year. There are few also who have not noticed that even in France and Germany the pace at which industrial production indices rose at the end of the year were not quite as spectacular as at the beginning of 1960. I had already returned when the decision to revalue the German mark and the Dutch guilder was announced, but I would be surprised if in view of the general atmosphere in Europe these two monetary changes were not considered as creating one more obstacle to keeping growth rates at the exceptional levels attained during the first half of 1960.

The optimists, of course, would say that it was high time to recognize that the limitations on availability of manpower were already severe enough to slow down growth and that therefore the monetary adjustments were meant to prevent inflationary movements but not to reduce the pace of progress. Nevertheless, even they would concede that perhaps the slowing down of economic activity in the United States may have some relationship with the slight loss of momentum recently experienced in Europe.

But another preoccupation was even more prominent in many people's mind: what will the American policy be with regard to foreign trade if business here is slow in picking up? Will there not be a tendency to favor higher protective tariffs and possibly other impediments to the free flow of trade? If this trend should prevail in the U.S., it would be interpreted (1) as a lack of confidence of the Americans in their own economy, and (2) as heralding a new era of competitive trade restrictions. This would really mean exporting the cycle.

Everything that I have heard in this country before or since my visit abroad convinces me that this is a windmill which is not worth fighting. The fact remains, however, that the rather encouraging trend towards accepting foreign competition which can be noticed in many recent developments in Europe, would be seriously injured if such an unwelcome change should loom on the horizon. I have mentioned this point only because it is a recurrent theme in Europe. But I feel that we can dismiss it from the discussion.

Now that I have mentioned the doubts and concerns which are most frequently expressed in Europe and the echoes of which you will find daily in the press, I can perhaps reverse the proposition. Whoever looks at the figures cannot help being impressed by the remarkable progress made in Europe over the last two years, and my argument today is that, while solidarity and interdependence are a reality, these developments in Europe should normally tend to support on the one hand the underdeveloped world and, on the other hand, the American economy either directly or through the channels of the underdeveloped world. It is a fact that trade between the less developed areas and Europe is roughly twice as large as trade between them and the U.S. A strong European demand for their products means more resources at their disposal to buy not only European but also American goods.

I. - Europe and Japan

As I indicated earlier, the exceptionally vigorous expansion of European industrial output in 1959/60 has turned, in most countries, into a more moderate though still respectable rate of advance: at the

end of 1960 the level of industrial production was 8-9% above the same period in 1959.

Europe's resources have, to a considerable extent, been strained by the boom; in particular, a tight labor market has contributed in slowing down the expansion. As the supply of labor virtually dried up in some countries, wages increased markedly: in the 15 months between mid-1959 and the fall of 1960 hourly wages in Germany rose by 11%, in France by 8%, as compared to 3% in the U.S. Despite these increases in wages and the continuous high level of demand, prices have remained remarkably stable in Europe, except perhaps in France which had just gone through a devaluation. Productivity gains in Europe's domestic production certainly had something to do with this, but also lower prices paid on imports of major commodities.

Demand for exports was a major force of expansion. During 1959 and early 1960, a 50% rise of Europe's exports to the U.S. took place. However, Detroit's compact cars, the resumption of U.S. steel production in early 1960, and the fall of U.S. industrial output since March 1960 reduced Europe's sales to the U.S. in 1960 by almost 10% compared with 1959. Declining sales to the U.S. in 1960 were more than offset by higher intra-European trade and, to a lesser extent, to the rest of the world.

The improved balance of payment of Europe and the increase in its reserves by 5 billion in two years make it easier to let internal forces play their role. Internal European consumer demand has expanded vigorously,

particularly for durables. Expanding demand for exports and consumer goods on the one hand and a tight labor market on the other have stimulated investments. Even more important, perhaps, business investments have also been strengthened by the general optimism associated with the movement towards the regional groupings of the Common Market, and of the European Free Trade Area (EFTA).

The Common Market countries - France, Germany, Italy and the Benelux countries - decided to accelerate their schedule roughly by one year. The clearest testimony to this climate of optimism is the fact that duties on intra-trade were reduced on January 1, 1961 by a further 10%; total reduction of intra-trade duties has now reached 30% of the pre-1959 level. However, there are various exceptions to this accelerated movement towards a Common Market, particularly in the field of agriculture. In the second place, the external tariffs of the six countries moved, on January 1, 1961, by 30% towards the common external rates, which as you will remember is, as a rule, the average of the tariffs prevailing on January 1, 1957, and in addition the computation is now made on the assumption that this average will be reduced by a further 20%, thus anticipating a favorable outcome of the present discussions at GATT. Finally, this morning's press announces that new tariff reductions were adopted by France yesterday: 10% textiles, 5% to 10% on manufactured goods based on 1957 tariffs means 7% to 14% on 1961 levels.

On their side, the countries associated in EFTA - three Scandinavian countries, England, Austria, Switzerland and Portugal - have also speeded up their schedule of tariff reduction. This reduction concerns only trade

among themselves since they each remain free to handle their external tariff as they wish. The reduction started one year and a half later than in the Common Market, but already by July 1, 1961, the rates will have been reduced by 30%.

As of today, it would seem that Europeans themselves expect a further growth in output and income during 1961.^{1/} For Germany, assuming the revaluation has no adverse effects, growth has been projected at 4% or more; the slowdown from last year being attributed to the acute shortage of manpower. In France, an official estimate projects an expansion of 5.5% for 1961, i.e. just about the same rate as that achieved in 1960. In view of the successful adjustment of the economy since 1958 and of a sufficient labor supply, this goal appears feasible. In the U.K., an expansion of 2.5% has been considered probable in 1961. Slowdowns to still respectable rates of growth are also expected in Italy, the Netherlands and Norway.

It would not be fair not to mention Japan, the most important industrialized country in the free world outside North America and Europe. This country has experienced a further rapid expansion in 1960; industrial production rose by around 25%, though at a lower rate during the second half of the year. According to a statement of the Japanese Prime Minister in the fall of 1960, an annual expansion of the Japanese economy of around 9% may be forthcoming over the next three years. With Japan's sharply increasing industrial production, prospects for rising imports

^{1/} Sources of projections for 1961 are given in Table 1.

should remain favorable, all the more as external reserves have risen sizeably in 1960.

Should, however, internal demand in Europe as well as in Japan not be forthcoming as expected, these countries may well tend to stimulate their exports as a partial offset to their domestic disappointment. Such an export drive would probably lead to capital exports in excess of the presently contemplated capital flows to less developed areas.

II. - Less Developed Areas^{1/}

Booming conditions in the industrialized countries have had their counterparts in rapidly rising imports. The most spectacular gains have, of course, been recorded in trade between industrialized countries. But imports from less developed areas also increased somewhat. Admittedly, they had been at a low level in 1958. Everybody knows that primary commodities have suffered substantial price declines over the recent years, but 1960 was a period of relative stability. The pickup in demand for primary commodities was thus reflected in a higher volume of trade rather than in improved prices, and as a result export earnings of less developed countries increased by 12% between 1958 and 1960. They, however, seem to have levelled off in the second half of 1960.

Imports of the underdeveloped world rose by only 4% between 1958 and 1960. Their aggregate trade deficit of \$3.1 billion in 1958 was reduced to some \$1.3 billion in 1959 but probably rose again in 1960.

^{1/} Africa (excl. Union of South Africa), Asia (excl. Japan) and Latin America.

Gold and foreign exchange holdings declined seriously between 1956 and 1958, recovered slightly until mid-1960 and since then they underwent some losses again.

The volume of Latin America's exports rose by 9% in 1959 and reached record levels in 1960; in several countries this expansion in trade more than offset price declines and the area's current export earnings have recovered from the recession level of 1958. This seems to be the case in Mexico, Colombia, Chile, Argentina and perhaps Brazil. What effect the U.S. recession in 1960/61 may have on Latin America is not yet clear however.

Past performance in at least maintaining production and income in most countries in spite of the unfavorable external conditions would make the outlook for their import demand fairly favorable, provided of course foreign capital continues to contribute to the areas' economic expansion.

Data on Africa are scattered. Export earnings have risen by more than 10% since 1958 despite a 4% decline in export prices; on the other hand, imports have increased since 1959. The countries of the Franc zone, being specialized in tropical foodstuffs for a sheltered market, experienced a steady and balanced rise in foreign trade. Both the Sudan and the Egyptian Region of the United Arab Republic improved their external position with higher long staple cotton prices since mid-1959.

Africa's export earnings have been tied to quite a considerable extent to economic expansion in Europe; near-term prospects for such exports appear favorable. Africa's capacity to import in the near

future is also likely to be increased by private or public capital flows on a number of large projects. Public external assistance may be expected to continue or even increase in some African countries, main sources: the European Development Fund of the Common Market, France and the U.K. and finally the U.S. agencies who are showing an increasing interest in Africa. Despite major uncertainties in some African areas, this continent's requirements for future imports of goods (and perhaps even more of technical assistance) are likely to be as high tomorrow as today.

Asia's terms of trade have improved. Prices of rubber, cotton, tin and lately also in that of tea and jute have risen. There has been, however, in 1958/59 some reduction in imports by the area as a whole, thus improving the trading account, which was badly out of balance in 1957. Most striking is, however, the growth in imports of capital goods which reflects an intensive drive towards industrialization and modernization in all production sectors. Correspondingly, rapid progress has been achieved in industrial production in most Asian countries.

Development plans covering the first half of the 1960's have recently been set up by the governments of India, Pakistan, Thailand, the Federation of Malaya and other countries. While considerable domestic efforts are expected to be forthcoming, here again dependence on foreign resources will remain basic for quite some time to come.

III. - Developments abroad and the U.S. business

Speaking of one area after another, I have indicated that the import possibilities have either increased or at least maintained in most countries and clearly the success of U.S. exporters will depend

largely on their strength in competing with European and Japanese producers. This would be even more true if economic conditions in Europe should become less favorable and if, as a consequence, European governments should adopt new measures to encourage their own exports.

But foreign aid is an essential part of this general picture: external capital needed by less developed countries for their economic development will, to say the least, not decline over the years to come. According to a recent publication of the OEEC the net contribution of external capital (including private capital) to all less developed countries has been of the order of \$7 to \$7-1/2 billion a year during 1957-59. In view of higher development efforts in less developed countries on the one hand and of strengthened balance of payment conditions in many industrialized countries on the other, further increases in the net contribution of external capital, particularly from European sources, to development is not unlikely. But one may perhaps expect a decline in the relative, if not the absolute level of the U.S. contribution to economic development. This tendency can already be traced in the last few years; according to the OEEC publication mentioned before, the relative share of the U.S. in net capital flows to less developed countries has declined from around 60% in 1956 to around 50% in 1959 for public capital, and for private capital, from 41% in 1956 to 29% in 1959.

Summing up, the over-all picture shapes up somewhat as follows: a prosperous Europe, a very prosperous Japan are both competitors and attractive outlets for U.S. exports. The developing areas have, thanks

to the continued advance in Europe and in other industrialized countries, maintained a fairly stable, if not growing, market for their raw material exports. This is also a competitive area for manufactured goods. If Europe can maintain the pace of its advance, the U.S. should normally benefit by it.

INDEX

- Table 1 Projections of Growth in Selected European Countries
 During 1961
- Table 2 United States - Exports and Imports by Areas of
 Destination and Origin, 1955-60
- Table 3 OEEC Member Countries Combined - Exports and
 Imports by Areas of Destination and Origin, 1955-60
- Table 4 Less Developed Areas - Indices of Exports and
 Imports (value, quantum and unit value, 1953-60)
- Table 5 Exports (f.o.b.) and Imports (c.i.f.) of Latin
 America, 1955-60
- Table 6 Gold and Foreign Exchange Reserves, 1956-60
- Table 7 Net Capital Flows from Industrialized Countries
 to Less Developed Areas

TABLE I

Projections of Growth in Selected European Countries

During 1961

<u>Country</u>	<u>Increase in Real Output in 1961</u>	<u>Source</u>
France	5.5%	Ministere des Finances, Comptes previsionnels pour 1960, Service des Etudes economiques et financieres.
Germany	4% and more	OEEC, Federal Republic of Germany, Paris, November 1960.
Italy	"considerable", but no figure given	OEEC, Italy, Paris 1961.
The Netherlands	6%	Nota betreffende de Toestand van's Rijksfinancien, 1961, The Hague 1960.
E.E.C.	4-5%	M. Marjolin: La Situation Conjoncturelle de la Communauté au Debut de 1961. Revue du Marche Commun, January 1961, p. 9.
U.K.	2.5%	National Institute Economic Review, London, January 1961.
Norway	6%	Nasjonalbudsjettet 1961, St. meld, No. 1, Oslo 1960.

TABLE 2
UNITED STATES
Exports and Imports by Areas of Destination and Origin, 1955-60

	GRAND TOTAL	Canada	Western Europe	Japan	Australia N.Zealand Union of S.Africa	Less Developed Areas				Soviet Bloc
						Total	Latin America	Africa (excl. Union of S.Africa)	Asia (excl. Japan)	
<u>Exports (f.o.b.)</u> (in billion US\$)										
1955	14.0	3.2	4.2	0.6	0.5	5.4	3.3	0.3	1.7	0.0
1956	17.1	4.0	5.2	0.9	0.5	6.4	3.9	0.4	2.1	0.0
1957	19.1	3.9	5.7	1.2	0.5	7.6	4.8	0.4	2.4	0.1
1958	16.0	3.4	4.5	0.8	0.5	6.7	4.3	0.4	2.0	0.1
1959	16.0	3.7	4.5	0.9	0.5	6.2	3.7	0.5	2.1	0.1
1960 _{1/}	18.9	3.7	6.1	1.3	0.7	6.8	3.7	0.5	2.7	0.2
Index (1955=100)										
1959	114	115	107	144	101	115	110	132	121	128
1960 _{1/}	135	116	147	192	140	126	110	135	155	247
Percentage Distribution										
1955	100%	23%	30%	4%	4%	39%	24%	3%	12%	0%
1960	100%	20%	32%	7%	4%	36%	19%	3%	14%	1%
<u>Imports (c.i.f.)</u> (in billion US\$)										
1955	11.5	2.7	2.4	0.4	0.3	5.7	3.6	0.5	1.6	0.1
1956	12.8	2.9	2.9	0.6	0.3	6.0	3.9	0.5	1.6	0.1
1957	13.1	2.9	3.1	0.6	0.3	6.2	4.1	0.5	1.6	0.1
1958	13.0	2.7	3.3	0.7	0.3	6.0	4.0	0.5	1.5	0.1
1959	15.5	3.0	4.5	1.0	0.5	6.4	4.0	0.5	1.9	0.1
1960 _{1/}	15.0	2.9	4.2	1.2	0.4	6.3	4.0	0.4	1.9	0.1
Index (1955=100)										
1959	135	115	189	238	170	112	112	90	118	134
1960 _{1/}	130	110	176	271	148	111	111	83	115	131
Percentage Distribution										
1955	100%	23%	21%	4%	2%	49%	31%	4%	14%	1%
1959	100%	19%	28%	8%	3%	41%	26%	3%	12%	1%

_{1/} Jan.-Oct. at annual rate.

Source: Total Export and Import Trade of the U.S. - Jan.-Dec. 1959 and Jan.-Oct. 1960 (Pt. 3-No.60-6; and 61-1) World Trade Information Service, U.S. Dept. of Commerce.

TABLE 3
OEEC Member Countries Combined^{1/}

Exports and Imports by Areas of Destination and Origin, 1955-60

	GRAND TOTAL	Canada	U.S.A.	Japan	Australia	Less Developed Areas			Soviet Bloc	
					N.Zealand Union of S.Africa	Total	Latin America	Africa (excl. Union of S.Africa)		Asia (excl. Japan)
<u>Exports (f.o.b.)</u> (in billion US\$)										
1955	14.8	0.6	2.0	0.1	2.2	9.0	2.1	4.0	2.9	0.9
1956	16.2	0.7	2.5	0.2	1.9	9.6	2.3	4.0	3.4	1.1
1957	18.0	0.8	2.6	0.3	2.1	10.9	2.7	4.4	3.7	1.3
1958	18.5	0.8	2.9	0.2	2.1	10.9	2.7	4.6	3.5	1.6
1959	20.0	1.0	4.3	0.3	2.0	10.6	2.9	3.8	3.9	1.8
1960 ^{2/}	21.7	1.0	4.3	0.3	2.3	11.7	3.0	4.4	4.3	2.2
Index (1955=100)										
1959	135	174	211	227	92	118	136	95	136	199
1960 ^{2/}	147	179	208	250	105	130	142	109	149	239
Percentage Distribution										
1955	100%	4%	14%	1%	14%	61%	14%	27%	20%	6%
1960 ^{2/}	100%	5%	19%	2%	10%	54%	14%	20%	20%	10%
<u>Imports (c.i.f.)</u> (in billion US\$)										
1955	20.2	1.3	4.3	0.2	2.3	10.9	2.8	3.8	4.2	1.2
1956	22.2	1.4	5.1	0.2	2.4	11.7	3.3	4.0	4.4	1.4
1957	24.3	1.4	6.2	0.3	2.6	12.4	3.8	4.1	4.6	1.5
1958	21.8	1.4	4.6	0.3	2.0	11.8	3.2	4.0	4.6	1.6
1959	22.9	1.4	4.7	0.4	2.3	12.3	3.5	3.6	5.2	1.9
1960 ^{2/}	26.4	1.5	6.5	0.5	2.6	13.2	3.8	4.1	5.4	2.1
Index (1955=100)										
1959	113	101	110	209	98	113	124	94	122	160
1960 ^{2/}	131	115	151	275	111	121	133	107	127	177
Percentage Distribution										
1955	100%	7%	21%	1%	11%	54%	14%	19%	21%	6%
1960 ^{2/}	100%	6%	24%	2%	10%	50%	14%	16%	20%	8%

^{1/} Excl. Switzerland.

^{2/} Jan.-June at annual rate.

Sources: OEEC Foreign Trade Statistical Bulletins, Series IV, 1958 (for 1955 through 1958).

OEEC Statistical Bulletin, Foreign Trade by Countries, Series A, Dec. 1960 (for 1959 and 1960).

TABLE 4

Less Developed Areas^{1/}

Indices of Exports and Imports
 (value, quantum and unit value, 1953-60)
 (Indices: 1953=100)

	Exports (f.o.b.)			Imports (c.i.f.)			Terms of Trade
	Value ^{2/}	Quantum	Unit Value	Value ^{2/}	Quantum	Unit Value	
<u>Less Developed Countries Combined^{1/}</u>							
1953	100	100	100	100	100	100	100
1954	105	103	102	105	109	96	106
1955	112	110	102	113	117	97	105
1956	120	117	101	126	124	99	102
1957	121	120	101	145	135	103	98
1958	119	121	97	136	130	99	98
1959	126	131	94	131	129	97	96
1960 (first three quarters)	<u>134</u>	137	95	<u>139</u>	136	99	96
<u>Latin America^{3/}</u>							
1953		100	100		100	100	100
1954		95	105		119	95	110
1955		102	97		119	97	100
1956		111	96		122	99	96
1957		111	93		139	103	91
1958		115	84		130	100	84
1959		126	78		120	99	78
1960 (first half year)		127	79		122	100	79
<u>Africa (excl. Union of S. Africa)</u>							
1953		100	100		100	100	100
1954		105	103		107	97	107
1955		112	102		119	96	106
1956		117	103		119	99	104
1957		121	101		127	102	99
1958		122	98		131	100	98
1959		135	93		130	96	97
1960 (first half year)		145	93		149	97	97

/contd.

TABLE 4

Less Developed Areas^{1/} - contd.

Indices of Exports and Imports
 (value, quantum and unit value, 1953-60)
 (Indices: 1953=100)

	Exports (f.o.b.)			Imports (c.i.f.)			Terms of Trade
	Value ^{2/}	Quantum	Unit Value	Value ^{2/}	Quantum	Unit Value	
<u>Asia</u>							
(sterling area countries)							
1953	100		100	100		100	100
1954	102		98	103		95	103
1955	111		105	112		98	107
1956	118		100	129		98	102
1957	118		100	143		102	98
1958	111		96	132		96	100
1959	120		99	136		97	103
1960 (first half year)	124		105	147		101	104
<u>Other Asian Countries (excl. Japan)</u>							
1953	100		100	100		100	100
1954	104		93	95		95	97
1955	108		98	106		93	105
1956	113		93	116		93	100
1957	123		94	122		97	97
1958	110		93	107		95	98
1959	118		98	100		93	105
1960 (first half year)	120		99	110		93	106

^{1/} Latin America, Africa (excl. Union of S. Africa), Asia (excl. Japan).

^{2/} Trade with rest of the world only.

^{3/} Indices of exports and of terms of trade excl. petroleum trade.

Sources: U.N. Current Economic Indicators, Vol. 1, No. 2, 1961.
 U.N. Monthly Bulletin of Statistics, January 1961.

TABLE 5
Exports (f.o.b.) and Imports (c.i.f.)
of Latin America, 1955-60
(in million US\$)

	Brazil		Argentina		Chile		Colombia		Mexico		Total Latin America	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
1955	1,423	1,306	929	1,173	472	376	580	669	807	885	9,260	9,190
1956	1,482	1,234	944	1,128	542	354	599	657	880	1,072	10,030	9,740
1957	1,392	1,488	975	1,310	455	441	511	483	734	1,155	10,180	11,370
1958	1,243	1,353	994	1,233	386	415	461	400	736	1,129	9,630	10,520
1959	1,282	1,374	1,009	993	495	413	474	416	750	1,007	9,710	9,825
1960 1st quarter ^{1/}	1,125	1,275	970	987	526	472	449	463	743	1,113	[9,700] ^{2/}	[9,800] ^{2/}
2nd quarter ^{1/}	1,298	1,418	1,190	1,276	510	587	390	504	652	1,174	[9,950] ^{2/}	[10,400] ^{2/}
3rd quarter ^{1/}	1,381	1,602	1,143	1,137	514	454	488	502	888	1,243	n.a.	n.a.

Note: The following Latin American countries had higher exports by mid-1960 as compared to 1958 in spite of deteriorated export prices: Brazil, Ecuador, Guatemala (and probably Mexico, where no export price index is available); the rise in export earnings between 1958 and 1960 of Argentina, Chile, Peru, Uruguay and Jamaica may be explained to some extent by higher export prices.

^{1/} Quarterly figures at annual rates.

^{2/} Estimates based on indices given in U.N. Current Economic Indicators, Vol. 1, No. 2, 1961.

Source: IMF, International Financial Statistics, March 1961.

TABLE 6

Gold and Foreign Exchange Reserves, 1956-60

(end of period; in billion US\$)

	U.S.	Canada	OEEC Countries	Japan	Latin America (excl.Venezuela)	All Other Countries
1956	22.1	1.9	14.5	0.9	2.7	8.3
1957	22.9	1.8	15.4	0.5	2.4	8.6
1958	20.6	1.9	19.0	0.9	2.1	7.7
1959	19.5	1.9	20.5	1.3	2.3	8.1
1960	17.8	1.8	24.9	1.8	2.5 ^{1/}	7.7 ^{2/}

1/ November 1960.

2/ October 1960.

Sources: U.S., Canada, OEEC Countries: OEEC General Statistics, Part I, February 1961. Japan, Latin America, all other countries: National Institute, Economic Review, January 1961.

TABLE 7

Net Capital Flows from Industrialized Countries^{1/} to Less Developed Areas^{2/}

	Public Capital Flows (net)						Private Capital Flows ^{4/} (net)		Total Net Capital Flows	
	Grants ^{3/}		Loans (net)		Total		Total (in billion US\$)	(US as a % of total)	Total (in billion US\$)	(US as a % of total)
	Total (in billion US\$)	(US as a % of total)	Total (in billion US\$)	(US as a % of total)	Total (in billion US\$)	(US as a % of total)				
1956	2.1	61%	1.2	61%	3.3	61%	3.0	41%	6.3	52%
1957	2.4	55%	1.5	54%	3.9	54%	3.7	54%	7.6	54%
1958	2.8	48%	1.7	66%	4.5	55%	2.9	42%	7.4	50%
1959	2.8	50%	1.9	50%	4.7	50%	2.4	29%	7.1	43%

Details may not add to totals due to rounding.

^{1/} OEEC Member Countries (excl. Spain and Turkey), United States, Canada, Japan.

^{2/} Africa (excl. Union of S. Africa), Asia (excl. Japan), Latin America, Spain, Turkey, Yugoslavia.

^{3/} Incl. reparations.

^{4/} Incl. reinvested earnings.

Source: OEEC, Aid to Countries in Course of Economic Development, 1961.

Prepared for Regional Conference on Economic Development
in Africa south of the Sahara, INTERNATIONAL
ECONOMIC ASSOCIATION, 17-29 July, 1961,
Addis-Ababa, Ethiopia (do not know if
presented; not in proceedings)



Capital and Capital Supply in Relation to the Development of Africa
South of the Sahara 1/

Leonard Rist

Special Representative for Africa
of the International Bank for Reconstruction and Development

July 1961

1/ The author wishes to acknowledge here the valuable assistance he received in preparing this paper from Mr. Marinus van der Mel and Mr. Badri Rao both of the Economic Staff of the International Bank for Reconstruction and Development.

Capital and Capital Supply in Relation to the
Development of Africa South of the Sahara

Table of Contents

	<u>Page</u>
Introduction	1
I. Magnitude and Institutional Pattern of External Economic Assistance in the Recent Past	1
Need for Improvement of Information	1
Total Recent Flow of External Public Assistance	2
Bilateral Public Assistance	5
France	5
United Kingdom	12
Belgium	14
Portugal and Italy	14
United States	15
Germany	17
Sino Soviet Bloc	17
Other Bilateral Assistance	18
Multilateral Assistance	18
U.N. Technical Assistance	18
Special Fund of the U.N.	19
International Bank for Reconstruction and Development (World Bank)	19
International Development Association (I.D.A.)	21
International Finance Corporation (I.F.C.)	21
International Monetary Fund (I.M.F.)	22
Fonds de Developpement pour les Pays et les Territoires d'Outre-Mer (FEDOM)	22
Flow of Private Capital	23
II. Some General Considerations	25
(a) Mobilizing Domestic Financial Resources	25
(b) Prospects for External Financial Assistance	26
Sources	29
Table 1: External Public Economic Assistance to African Countries and Territories South of the Sahara, 1954-58 and 1957-59	3-4
Table 2: Total Net Public Direct Expenditures, Grants and Loans in the Overseas Franc Area, 1956-59	7
Table 3: Gross Public Direct Expenditures, Grants and Loans in the Overseas Franc Area, 1956-58	8

Capital and Capital Supply in Relation to the Development of Africa South of the Sahara

Introduction

The major part of this paper is devoted to an analysis of the magnitude and forms of external economic assistance that has been flowing in recent years to Africa South of the Sahara. I have preferred to concentrate on this aspect of capital supply for two major reasons. In the first place, a stock-taking of the types and amounts of external financial resources available for the economic development of the countries in this area seems to me to be particularly useful to African officials concerned with developmental problems. In the second place we have only little detailed knowledge of domestic capital formation in many countries of the area. I have, however, brought together in the second part of this paper a number of considerations that are relevant to an analysis of future capital requirements of Tropical Africa.^{1/}

I. Magnitude and Institutional Pattern of External Economic Assistance in the Recent Past.

Need for Improvement of Information

At the outset I would like to stress that there are numerous difficulties in measuring the volume of external economic assistance flowing to Africa South of the Sahara; they arise at several levels. Information provided by capital exporting countries most commonly is given in aggregates; where the data are shown in some detail, they usually refer to currency or political groups such as "Territoires d'Outre Mer" or "Rest of the Sterling Area" which cut across continental boundaries. Another major difficulty arises from conceptual differences: in some instances the data relate to investment assistance per se; in others they include all kinds of expenditures such as budgetary support and direct expenditures for current purposes. On a different level are difficulties caused by differences in accounting years, in the time periods covered by the data and in the meaning of the figures themselves: sometimes they refer to actual expenditures and in other instances they might relate to "commitments" or "authorizations". Again, where data on loans are concerned, they may be "gross" or "net of repayments"; seldom, however, do the net data include other capital movements in the opposite direction.

I would, therefore, like to take this opportunity to stress the imperative need for a uniform system of periodic and detailed reporting on the international flow of economic assistance to underdeveloped countries.

^{1/} Tropical Africa refers throughout to countries south of the Sahara (i.e., excluding Sahara) and north of the Union of South Africa (but including the United Kingdom High Commission Territories in South Africa, Ethiopia and the Sudan).

Total Recent Flow of External Public Assistance

The figures given in Table 1 are based on data published by the United Nations. The major advantage of these data over those available from other sources is that they provide information in respect of several individual countries south of the Sahara. However, they are subject to the important qualification that they have a considerable downward bias because of limited coverage; for instance, they are exclusive of certain amounts of assistance which are quite large but cannot be broken down by countries.^{2/}

The figures in Table 1 represent identifiable receipts of foreign public economic assistance by the countries specified. They take into account grants and loans with a maturity of at least five years and generally refer to actual disbursements net of repayments. Some aid to cover current expenditures is presumably also included but only to a very limited extent.

On the basis of these figures one might draw the following conclusions. First, external assistance to African countries south of the Sahara in the period 1953/54 to 1958/59 has averaged, on a net basis, some \$205 million equivalent annually; total public external assistance to Tropical Africa appears not to have changed a great deal during this period.^{3/} Secondly, bilateral assistance has been preponderant during this period, amounting to roughly nine-tenths of the total. Bilateral assistance went mostly to countries which historically have had close ties with France and Britain respectively, the former in total receiving roughly twice as much as the latter. In the third place it would appear that the share of multilateral assistance in total public external assistance flowing to the area has increased slightly during the period considered, the annual average of identifiable multilateral assistance rising from some \$22 million in 1953/54-1957/58 to around \$26.5 million in 1957/58-1958/59.

^{2/} The OEEC has recently published an important study entitled "The Flow of Financial Resources to Countries in Course of Economic Development 1956-59". In this study also an effort has been made to collect data on foreign economic assistance on a uniform basis. A number of references will be made to the study in this paper later. Unfortunately, the study is of only limited usefulness to assess the amounts of external public assistance to Tropical Africa, since it does not provide detailed data for that area.

^{3/} At least on the basis of the limited coverage of data for external public economic assistance underlying the U.N. computations. As we shall see later, individual country sources (notably those of France) would seem to indicate an increase in the total flow of aid in the course of this period. Part of this increase presumably also benefitted Tropical Africa.

Table 1: External Public Economic Assistance to African Countries and Territories South of the Sahara, 1954-58 and 1957-59
(cumulative; U.S.\$ million equivalent)

		Bilateral Aid		Multilateral Aid		Total	Total Per Year
		Grants	Loans	Grants	Loans		
Angola	1954-58	-	0.2	0.2	-	0.4	0.1
	1957-59	-	0.1	0.1	-	0.2	-
British East Africa ^{b/}	1954-58	83.3	53.6	2.1	15.6	154.6	31.0
	1957-59	40.5	11.1	1.7	-	53.3	26.6
British Somaliland	1954-58	9.6	-	-	-	9.6	1.9
	1957-59 ^{c/}	-	-	-	-	-	-
British High Commission Territories ^{d/}	1954-58	9.4	12.9	0.4	-	22.7	4.5
	1957-59	7.5	1.6	0.1	-	9.2	4.6
British West Africa ^{e/}	1954-58	49.2	3.6	2.1	-	54.9	11.0
	1957-59	26.1	0.4	1.0	-	27.5	5.5
Cameroun	1954-58	76.8	16.3	-	-	93.1	18.6
	1957-59	28.7	-3.4	0.2	-	25.5	12.8
Congo (Leopoldville)	1954-58 ^{a/}	-	36.8	0.2	29.7	66.7	13.5
	1957-59	-	-	-	9.4	9.4	4.7
Ethiopia	1954-58	17.3	4.6	2.7	3.1	27.7	5.5
	1957-59	13.1	0.5	1.5	1.8	16.9	8.5
Former French Equatorial Africa	1954-58	97.1	13.2	0.5	-	110.8	22.2
	1957-59	30.3	8.5	0.3	-	39.1	19.5
Former French West Africa	1954-58 ^{f/}	191.2	63.8	3.1	5.6	263.7	52.7
	1957-59	80.1	3.4	1.0	-0.6	83.9	41.9
Ghana	1954-58	8.7	1.6	0.7	-	11.0	2.2
	1957-59	3.8	-	0.8	-	4.6	2.3
Guinea	1954-58	-	-	-	-	-	-
	1957-59	4.2	0.6	0.2	-	5.0	2.5
Liberia	1954-58	8.2	5.8	1.4	-	15.4	3.1
	1957-59	4.7	10.6	0.8	-	16.1	8.0
Malagasy Republic ^{g/}	1954-58	62.5	21.4	-	-	83.9	16.8
	1957-59	27.9	2.0	-	-	29.9	15.0
Mozambique	1954-58	-	12.5	-	-	12.5	2.5
	1957-59	-	-	-	-	-	-
Rhodesia & Nyasaland	1954-58	15.8	51.6	0.2	38.9	106.5	21.3
	1957-59	4.2	-12.1	0.1	18.8	11.0	5.5

Table 1: External Public Economic Assistance to African Countries and Territories South of the Sahara, 1954-58 and 1957-59 - contd.
(cumulative; U.S.\$ million equivalent)

		<u>Bilateral Aid</u>		<u>Multilateral Aid</u>		<u>Total</u>	<u>Total Per Year</u>
		<u>Grants</u>	<u>Loans</u>	<u>Grants</u>	<u>Loans</u>		
Ruanda Urundi	1954-58	-	-	-	-	-	-
	1957-59	-	12.0	-	-	12.0	6.0
Somalia	1954-58	29.2	-	0.6	-	29.8	6.0
	1957-59	16.6	-	0.8	-	17.4	8.7
Sudan	1954-58	0.3	-	1.5	-	1.8	0.4
	1957-59	5.8	5.0	1.2	14.5	26.5	13.3
Total	1954-58	658.6	297.9	15.7	92.9	1065.1	215.0
	1957-59	293.5	40.3	9.8	43.9	387.5	193.8

Notes: The figures are for fiscal years which in several cases correspond to the calendar year; they cover grants and loans net of repayments and generally cover five years in the period 1954-58 and two years in 1957-59 commencing July 1, 1957 and ending June 30, 1959. Data for the years 1957-59 are in many cases incomplete.

- a/ Including data for Ruanda Urundi.
- b/ Kenya, Uganda, Tanganyika, Zanzibar and Pemba.
- c/ 1957-59 data for British Somaliland are included in the figures shown for British East Africa for those years.
- d/ Basutoland, Bechuanaland and Swaziland.
- e/ Gambia, Nigeria and Sierra Leone.
- f/ Including data for Guinea.
- g/ Including Comoro Islands.

Source: For 1954-58, Table 159 of the U.N. Statistical Yearbook 1959.
For 1957-59, Table of the U.N.'s "International Economic Assistance to the Less Developed Countries" 1961.

It must, however, be emphasized that the data underlying these conclusions are tenuous and are based on the specific concept of foreign economic assistance underlying Table 1. Quite frequently, the concept as used by donor countries has a much wider coverage. French data, for example, include items such as current administrative expenditures and advances for balancing the budget most of which apparently have not been taken into account in the U.N. computations. The U.N. has included only territorial expenditures of the Fonds d'Investissement pour le Developpement Economique et Social des Territoires d'Outre Mer (FIDES) to be referred to later. But Metropolitan France is known to have undertaken large expenditures both under the so-called general section of FIDES and outside FIDES in these countries. The non-inclusion of such assistance greatly understates the French contribution; indeed roughly one-third of French public economic assistance in 1954-58 consisted of either current expenditures which cannot be readily broken down on a country-by-country basis or expenditures on general programs benefitting both North and Tropical Africa.

The data developed by the U.N. therefore need to be set against those that emerge from a study of the bilateral contributions as reported by the major capital exporting countries. Accordingly, the following sections of Part I are devoted to a rather detailed analysis of foreign economic assistance contributed by major countries and international agencies. The treatment is largely in terms of the institutional machinery through which such assistance is channeled.

On the basis of data supplied by contributors, it would appear that countries in Tropical Africa received external economic assistance in 1957 and 1958 in the order of some \$450-500 million annually. Although data based on contributions are seldom strictly comparable either as between countries or with data based on receipts (because of lags in reporting), the estimated figure of \$450-500 million is very much out of line with the \$205 million p.a. shown to have been received by Tropical African countries in the seven years prior to 1960 according to Table 1. I suggest that this only underlines the need for better reporting on this subject.

Bilateral Public Assistance

France

France has been by far the most important contributor to the external financing and economic development of African countries. The French approach to its financial responsibilities in respect to these countries, historically implied a close solidarity between metropolitan and overseas finances.

Metropolitan assistance took a variety of forms such as straightforward grants to cover current public expenditures, advances for balancing the budgets, grants and loans for investment purposes, direct participation in the capital of enterprises financed out of public funds, technical assistance and the provision of administrative and other personnel whose costs were borne by the French Treasury.

According to a recent OEEC study^{4/}, covering the period 1956-59, the net amount of the French contribution to economic development in the Overseas Franc Area, including the Overseas Departments (DOM^{5/}), was at an annual average rate of about \$775 million equivalent (see Table 2). This represents a substantial increase over previous years; it has been estimated that the total French contribution in the four years 1952 through 1956 was at around \$550 million per annum.^{6/}

Somewhat more than 60%, corresponding to an average annual rate of about \$490 million equivalent, of French public expenditures in the Overseas Franc Area has been in respect of the financing of investment; almost 40% (about \$285 million equivalent on average) was for current purposes (vide Table 2).

It should be emphasized that the figures cited above refer to assistance by Metropolitan France to the Overseas Franc Area as a whole. Unfortunately, it is not possible to give data on the same conceptual basis for Africa South of the Sahara alone. A rough estimate would be that Franc Area countries in Africa South of Sahara (i.e., excluding Algeria-Sahara, Morocco and Tunisia) annually received in 1956-58 an average of \$350 million equivalent (gross) for current as well as investment purposes from Metropolitan France. This would roughly correspond to 40% of French overall expenditures for current and investment purposes in the Overseas Franc Area (Table 3).

As was remarked already, the French public contribution to economic development in Africa has been much larger than that of any other country. This is not only true in absolute terms, but also in relation to gross national product. On the basis of the data on external assistance provided in the recent OEEC study it can be calculated that bilateral public external economic assistance provided to the entire outside world by France during the two years 1958 and 1959 was around 2% of GNP at factor cost, whereas the corresponding percentages for the U.S. and

^{4/} See footnote 2.

^{5/} Departements d'Outre-Mer.

^{6/} On the basis of the Annual Reports of the Fonds de Developpement Economique et Social. Part of the increase may be due to differences in coverage; but there appears to be no doubt that the rise was a real one.

Table 2: Total Net Public Direct Expenditures, Grants and Loans
in the Overseas Franc Area, 1956-59
(US\$ million equivalent)

	1956	1957	1958	1959
	Disbursements			
Direct expenditures and grants for current purposes	203	274	510	302
Tax receipts from overseas departments	[38]	38	36	33
Net current expenditures	[165]	236	474	269
Direct expenditures and grants for investment purposes	285	344	310	393
Loans for investment purposes	223	257	116	176
Amortization receipts	[40]	23	41	42
Net investment loans (a)	[183]	234	75	134
Total net official contribution	[633]	814	859	796

[] Figures in brackets are estimates.

(a) No allowance has been made for French public long-term borrowing in the rest of the franc area, e.g., through the sales of government bonds and two-year treasury bills.

Note: For the conversion of the original French franc figures into United States dollars the following exchange rates have been used: 1 US dollar = 3.50 NF in 1956, 3.75 NF in 1957, 4.20 NF in 1958 and 4.94 NF in 1959.

Source: OEEC, The Flow of Financial Resources....., op. cit., p. 51.

Table 3: Gross Public Direct Expenditures, Grants and Loans
in the Overseas Franc Area, 1956-58
(US\$ million equivalent)

	1956		1957		1958		1959	
	Total Overseas Franc Area	Community Countries & Overseas Territories excl. Algeria-Sahara	Total Overseas Franc Area	Community Countries & Overseas Territories excl. Algeria-Sahara	Total Overseas Franc Area	Community Countries & Overseas Territories excl. Algeria-Sahara	Total Overseas Franc Area	Community Countries & Overseas Territories excl. Algeria-Sahara
Direct expenditures and grants for current purposes	203	61	274	109	510	221	302	135
Direct expenditures and grants for investment purposes	285	183	344	194	310	137	393	106
Loans for investment purposes	<u>223</u>	<u>53</u>	<u>257</u>	<u>77</u>	<u>116</u>	<u>38</u>	<u>n.a.</u>	<u>n.a.</u>
Total	711	297	875	380	936	396	n.a.	n.a.

n.a.: not available.

N.B.: The Overseas Franc Area includes the French Overseas Departments (DOM) Algeria and the Sahara, Tunisia and Morocco and Vietnam, Laos and Cambodia in addition to the French Overseas Territories, independent members of the French Community and Guinea.

Sources: Comité Monétaire de La Zone Franc: La Zone Franc in 1958, and OEEC, The Flow of Financial Resources....., op. cit., p. 52.

the U.K. during these years were roughly 0.6%.^{7/} Even if the contribution to Algeria and the Sahara amounting to roughly a third of the total in 1958 is excluded, the French effort would still appear larger than that of the others.

French public external assistance in the form of current expenditures has been provided directly by the French Treasury. The various kinds of expenditures for investment purposes have been channeled through special institutions. The institutional framework for the financing of investment expenditures in Overseas France, which has shown a gradual evolution since the end of the Second World War, will be discussed briefly in the following pages.

In 1946 pursuant to the law of April 30, 1946, relative to the French public investment program, the "Fonds d'Investissement pour le Développement Economique et Social des Territoires d'Outre-Mer" (FIDES) was established; its operations were linked with those of the Caisse Centrale de la France d'Outre-Mer, (CCFOM) an agency established in 1941 for note issue and for making advances to local treasuries in the French Overseas Territories (TOM). CCFOM became the executing agency for FIDES.

FIDES' operations have consisted of two-parts - general and local - and have been financed by grants from the Metropolitan Treasury and to a small extent by contributions made by the TOM out of their local budgets; in addition, FIDES has drawn on loans extended to it by CCFOM.

The operations of FIDES have covered a wide field of both inter-regional projects and projects of direct interest to individual TOM. Projects of interest to the Metropole and to groups of "Territoires" such as general projects of agricultural, mining and hydroelectric research came under the purview of the so-called "general section" of FIDES. All such expenditures were financed wholly by the Metropole through grants; because of their regional significance it is difficult to allocate these expenditures to individual "Territoires" on the basis of benefits received by them.

Investment expenditures on agreed programs of special interest to the TOM and falling within the scope of the "local sections" of FIDES were financed jointly by the Metropole and by the TOM. The latter's share of the programmed costs was initially fixed at 45%; however, to the extent that the TOM could not meet their share of the contribution, they could borrow from the CCFOM. The TOM contribution having progressively been

^{7/} The percentages given here are of course affected by the coverage of the concept "public external economic assistance". There is no doubt however that on the basis of a more narrow concept than that adopted in the OEEC study the contribution of France would be the highest also. For instance, in a recent official U.S. publication (U.S. Senate Executive Report No. 1 of March 8, 1961) French public assistance to low-income countries in 1956-59 is estimated at 1.6% of GNP, against 0.5% for the U.S. and 0.4% for the U.K.

reduced to 10%, virtually the whole amount of programmed public development expenditures in the TOM was met from Metropolitan public funds as the CCFOM itself drew its resources from the French Treasury.

The magnitude of FIDES operations can be demonstrated by the fact that total disbursements since its inception in the former TOM, Togo and Cameroun under the 'general' and 'local' sections have amounted to Fr.526.8 billion^{8/} as of the end of 1958. Disbursements in 1957 and 1958 alone amounted to Fr.113.1 billion. In dollar terms, 1957-58 expenditures corresponded to some \$290 million equivalent; of this, approximately \$70 million equivalent were incurred on "general section" projects and the remainder on projects of direct interest to the TOM.

In addition to directly financing the costs of "general section" projects, the Metropole has also participated in the capital of numerous "sociétés d'économie mixte" which operate in a wide variety of fields of activity, e.g., food production, mining and electric power. The capital of these institutions consists of public capital contributed by both the Metropole and the TOM as well as of private capital. Precise data on such capital assistance are not readily available.

CCFOM also has made loans on its own account besides operating as the FIDES channel for long-term developmental loans and assisting in the establishment of development banks in the rest of the Franc Zone. These operations were financed from loans and advances out of a special fund of the French Treasury and were made for investment purposes to public agencies as well as to public, semi-public and private enterprises in the TOM. As of the end of 1958, the cumulative total of disbursements on loans made by CCFOM on its own account to the former TOM, Togo and Cameroun was some Fr.120 billion; in 1958 alone and in dollar terms, the amount was some \$60 million. The terms and conditions of CCFOM loans vary from case to case. Generally loans to public authorities are of longer maturity (10 to 20 years) and carry lower interest (about 2½%) than for private borrowers (7 to 10 years at about 5½%).

In March 1959 following the independence of most of the French Overseas Territories in Africa within the political framework of the "Communauté", special agreements within France including the following changes in the institutional machinery for foreign aid were effected. In the first place, FIDES was replaced by the "Fonds d'Aide et de Cooperation" (FAC), but only insofar as operations relative to the

^{8/} Because of the several changes in the exchange rate for the franc, conversion into dollar terms of cumulative totals is not meaningful. All figures shown in local currency here are in terms of the old franc. Where the figures have been converted, conversion factors have been applied as indicated in Table 2.

newly independent countries Cameroun and Togo were concerned. A special office was established with the French Under-Secretary ("Secrétaire d'Etat") concerned with the affairs of the States of the "Communauté" as head of the organization.^{9/}

Unlike FIDES, its predecessor, which had concerned itself only with investment programming and financing, FAC covers all forms of external aid and the provision of experts and technical assistance by France; the extension of budgetary subsidies when necessary also lies within the scope of FAC activities. Requests for aid have to emanate from the countries concerned on their own initiative and have to be related to an overall program of development showing clearly how the program is to be financed. FAC aid is then granted from purely Metropolitan sources on the basis of bilateral treaties between France and the member country concerned.

The total amount of investment assistance authorized by FAC to the members of the French Community and Cameroun and Togo in 1959 was the equivalent of \$70 million; of this about 60% was for infrastructure investments, some 10% for agricultural development and the remainder for general research and social projects. The \$70 million of FAC assistance does not, however, reveal the whole amount of economic and social investment assistance received by these countries in 1959 since an additional \$60 million had been extended to them in that year through FIDES prior to the cessation of its operations; nevertheless the level of the French contribution to these countries in 1959 was substantially below 1958.

Along with the changes in the structure of the aid program, the CCFOM was transformed into the Caisse Centrale de Cooperation Economique (CCCE) and the execution of the FAC program was entrusted to it. Like its predecessor, CCCE also may extend out of its own resources medium and long-term loans for the economic development of the States of the Community; only rarely, however, will it assist through direct participation in the capital of enterprises.^{10/}

One other form of assistance that deserves mentioning is the guarantee given by the Metropole to loans issued on the French capital market or abroad. In the past it was extended to members of the French Union, but subsequent to the changes in its structure, it is now limited to obligations raised by dependent territories.

^{9/} In June 1961 this special office was changed into a "Ministry of Cooperation", concerned with all economic and financial matters relating to independent countries which had previously been Overseas Territories. Political matters have been transferred to the Ministry of Foreign Affairs.

^{10/} CCCE loan commitments in 1959 to Tropical Africa (including Madagascar) were approximately \$41 million equivalent.

United Kingdom

The United Kingdom has traditionally followed the policy of assisting the economic development of its colonies and other countries dependent on it for external financing through opening the London capital market to overseas issues and through direct private investment. Public grant assistance has historically been of minor significance.

The U.K. has over the years developed an extensive institutional framework for public assistance to its colonies and to Commonwealth independent countries; public bilateral assistance to all areas combined has risen from an average of \$140 million equivalent in fiscal years 1952/53 to 1955/56 to an estimated \$330 million in 1959/60.

Recognizing its special responsibilities in regard to its colonies and the need for a special stimulus to the colonies for undertaking capital projects which private enterprise could not be expected to finance, the U.K. enacted in 1929 the Colonial Development and Welfare Act whereunder both grant and loan assistance were to be provided for public developmental programs undertaken by the colonies. The scope of the Act, modest in the beginning, was subsequently enlarged through a series of amendments.

In 1945, for the first time, the U.K.'s commitments were put on a relatively long-term basis through the provision of a total of £120 million (including £20 million unexpended from the 1940 allocations) for the period 1945-56. This figure was subsequently revised and the operative life of the Act was extended. Altogether £220 million had been earmarked for Colonial Developmental Assistance through 1960 by which time a number of colonies were expected to have attained independence within the Commonwealth; of this amount £45.5 million had been unexpended as of March 31, 1959.

The actual flow of assistance under the C.D. & W. Acts has risen sharply over the years; expenditures in the period 1951/52-1955/56 were 75% above 1946/47-1951/52 and the annual rate in the three years 1956/57 through 1958/59 was again some 25% above that in the preceding five years.

The total amount of funds committed under the C.D. & W. Acts as of March 31, 1959 was £207 million, almost all of which was in grants. Of this amount assistance flowing into countries south of the Sahara amounted to some £117 million; Nigeria alone received about one-third of this total. About one-quarter of the assistance going to countries south of the Sahara has been for communications, primarily roads, and a like amount for agriculture including related services. The remaining half was for social services with education and health accounting for the largest share.

In April 1959 the operative like of the Act was further extended to March 31, 1964, and a further sum of £95 million was provided. The annual limit on funds expendable in any single year (£20 million) was cancelled and provision was made for £100 million in Exchequer loans (not more than £25 million in any one year) for approved colonial development programs.

The £100 million of Exchequer loans was provided under the amended Act to enable colonial governments to be assured of a minimum of loan finance "at the appropriate time"; they are not intended to be a substitute for loans on the London capital market.^{11/} Indeed, it is implicit that a colonial government will first seek accommodation from the market on reasonable terms. Exchequer loans carry an interest rate $\frac{1}{4}\%$ higher than that on loans to public corporations and the terms are determined by individual circumstances; normally they will not exceed 30 years. Last year, for example, loans to Nigeria and Kenya were for 25 years at $6\frac{1}{2}\%$ and $5\frac{7}{8}\%$ respectively. Altogether, loans totalling £17.5 million were made to the colonies during fiscal 1959/60; in addition a loan of £ 3 million had been made to Nigeria in September 1960 before it became independent.

On attaining independence within the Commonwealth, colonies cease to be entitled to C.D. & W. assistance, but to the extent that there are unspent balances from previous allocations, they may continue to draw on them.

To supplement colonial assistance channeled through C.D. & W., the U.K. established in 1948 the Colonial Development Corporation (CDC). CDC was authorized to borrow £150 million at long-term (of which £130 million in government funds) and £10 million at short-term. It operates on a commercial basis in association with private interests or colonial governments in a variety of fields, particularly in utilities and agriculture, mining and forestry which altogether absorbed some 90% of CDC's commitments outstanding at the end of 1959.

As of December 31, 1959, £96 million in all had been committed towards loans and equity participation in 88 projects. This may be compared with a total of £ 48 million for 56 projects at the end of 1954. Commitments in respect of projects in countries south of the Sahara were at £63.5 million as of the end of 1959 (two-thirds of the total); actual disbursements amounted to £37.7 million.^{12/}

In addition to these various kinds of assistance to colonies, the U.K. provides budgetary assistance under the Colonial Services Vote for meeting current expenditures, as well as for emergency relief. This type of assistance has averaged some £20 million in recent years; almost all of it is in grants-in-aid.

^{11/} Between 1954/55 and 1959/60 a total of some £60 million was raised on the London market by the colonies.

^{12/} Colonial Development Corporation, Report & Accounts for the Year 1959.

For independent countries within the Commonwealth, the U.K. provides grant aid and technical assistance under the Commonwealth Services Vote as well as long-term developmental loans provided from Consolidated Fund sources under the authority of the act setting up the Export Credit Guarantees Department. The decision to make these loans for "programs of sound economic development which cannot be financed in other ways" was taken at the 1959 Commonwealth Economic Conference.^{13/} Terms vary from seven to twenty years and the interest rate is governed by that which the U.K. Government would itself have to pay for similar loans. As of March 1961, a total of £125 million in loans had been made; the only country in Africa to receive such assistance was Nigeria (£12 million).

In the field of technical assistance the U.K. provides a wide range of services; where the colonies are concerned these are provided through the Colonial Office.

Belgium

Belgium's interest in the development of low-income countries has centered primarily on the Congo and the trust territory of Ruanda-Urundi. Belgian economic assistance on public account to the Congo till very recently consisted largely of its guarantee in respect of issues on foreign capital markets by the Congo and Ruanda-Urundi. According to the Banque Centrale Du Congo et Du Ruanda-Urundi, the total of such issues as of the end of 1959 was the equivalent of some \$160 million of which \$104.8 million was from the World Bank.

In addition, Belgium has provided assistance in support of overseas budgets, consisting of grants and interest-free loans and advances with no fixed repayment terms. During most of the 1950's the amounts involved were rather small. Since 1959 the outflow of Belgian public capital rose rather sharply as a result of financial difficulties in the Congo. During the period 1956-59 the total of such assistance to the Congo and Ruanda-Urundi amounted to about \$65 million equivalent. For 1960 \$50 million were authorized in respect of the Congo alone, although it is not known to what extent this amount has been utilized.

Portugal and Italy

Among the other metropolitan countries which have provided public external assistance to African territories are Portugal and Italy; their contributions have been relatively modest. Portuguese economic assistance consists almost wholly of long-term loans for financing the development plans of Angola and Mozambique. The total of loans and grants provided during 1956-1959 was about \$6 million net per annum. Italy has provided grants of some \$32 million equivalent in 1956-59 to Italian Somaliland.

^{13/} Assistance from the United Kingdom for Overseas Development, Cmnd. 974, March 1960.

United States

Despite the large contributions that the U.S. has made to economic development abroad, it is only relatively recently that its assistance to African countries has begun to assume importance. For example, whereas the total amount of public economic assistance to Africa in the postwar years through June 30, 1954, amounted only to \$96 million, it was \$669 million in the six years ending June 30, 1960.

Somewhat more than one-third of the total in respect of Africa (\$272 million) has gone to countries and territories south of the Sahara in roughly equal proportion of grants (\$145.7 million) and loans (\$126.7 million).

U.S. foreign aid has heretofore been based on a series of legislative measures undertaken at different times and for different purposes. The Mutual Security Act, the Agricultural Trade Development and Assistance Act (PL 480) and the Export-Import Bank Act cover different programs and their administration is diffused. A bill has recently been placed before the U.S. Congress with a view to centralizing the foreign aid activities of the U.S. Government in a single agency and to putting them on a five-year basis. Emphasis will be on long-term development loans (50 years) at low or no rates of interest repayable in dollars as the primary instrument of external assistance.

The Mutual Security Act covered economic as well as military assistance. Appropriations to carry out the program of activities envisaged in the Mutual Security Act are made annually. Except for developmental loans which are administered by the Development Loan Fund (DLF), the International Cooperation Administration (ICA) is responsible for the bulk of foreign economic assistance, including technical cooperation, under the Mutual Security Act. In addition, ICA with some exceptions administers loans and grants made out of the local currency proceeds from sales of surplus U.S. agricultural commodities under PL 480

The PL 480 program consists of three types of activity. Under Title I, U.S. agricultural surplus commodities held by the Commodity Credit Corporation are sold against local currencies to friendly foreign countries. A small part of these local currencies are reserved for the use of the U.S. in the country concerned; the rest is used for loans and grants. These loans and grants are, as mentioned above, administered by ICA but the actual sales of the surplus commodities are outside the scope of the Mutual Security Program; such sales could occasionally be made under barter agreements whereby the U.S. accepts in payment commodities which are in short supply in the United States.

Titles II and III of PL 480 relate exclusively to free gifts of surplus agricultural commodities for emergency relief, economic development and donations to voluntary relief agencies.

So far PL 480 has been only of limited importance to African countries south of the Sahara; as of June 30, 1960, total PL 480 assistance to this area amounted to about \$12 million, mostly for emergency relief.

The Development Loan Fund (DLF) was established in 1957 with its capital made available by the Congress without fiscal year limitation; repayments and earnings become part of its capital structure. DLF is concerned solely with underdeveloped countries and is intended to assist them through loans that can be repaid in "local" currency under appropriate circumstances. The Development Loan Fund is the official channel for loans under the Mutual Security Program.

As of December 31, 1960, DLF loans to countries south of the Sahara amounted to \$23.4 million: (of which Ethiopia \$2.5; Liberia \$3.2; Nigeria \$3.8; Somalia \$2.0; Sudan \$10.0 and Tanganyika \$1.9 million). Typical projects financed are textile mills in Ethiopia and Sudan, telecommunications and a sawmill in Liberia, warehouse construction in Nigeria and agricultural and industrial development in Somalia.

The DLF is required under its statute to finance specific projects and programs which contribute to the economic growth of "less developed free countries" and where countries "demonstrate a clear willingness to take sound self-help measures". It is authorized to lend to foreign governments, public and private enterprises, as well as to financial institutions. Until recently, its loan proceeds were freely disposable but lately they have been tied to U.S. exports. The terms and conditions of DLF loans are individually determined. Ordinarily, loans financing economic overhead type of projects bear a lower rate (about $3\frac{1}{2}\%$) than those financing productive ventures; in the latter case, the rate corresponds to that charged by the Export-Import Bank of Washington (about $5\frac{3}{4}$ to $6\frac{3}{4}\%$).

The Export-Import Bank was established in 1934 with the primary purpose of fostering U.S. foreign trade; its loans are for the financing of purchases of U.S. products by foreigners. These loans are repayable in dollars. The Bank gives short-term credits to finance commodity purchases, balance of payments loans, longer term loans ranging from five to ten years for specific projects and up to twenty-five years for infrastructure projects and development loans. The terms of Export-Import Bank loans are individually determined; the interest rate charged depends on that it would have to pay the U.S. Treasury for similar accommodation and generally is lower for loans to governments and government entities than on loans to private borrowers.

The Export-Import Bank had extended \$80 million in loans with a maturity of five years or more for developmental projects in regions south of the Sahara as of June 30, 1960. Of this amount \$40.1 million went to Liberia for a variety of projects, e.g. highway construction, electric power, iron-ore mining, etc., \$27.4 million to Ethiopia for aviation and \$12.5 million to Mozambique for railway construction.

Germany

Among the leading industrialized countries Germany is potentially an important source of external capital for countries in course of development. Heretofore, the scale of its operations in countries south of the Sahara has been negligible although the gross outflow of public capital to other underdeveloped countries in 1956-59 averaged some \$195 million equivalent annually. This was composed of \$75 million in reparations and indemnifications, about an equal amount of consolidation credits, \$35 million in new credits and the rest in grants. The Kreditanstalt für Wiederaufbau has been the principal channel through which public loans are extended; it derives its funds both from the counterpart funds accrued under the European Recovery Program and from the capital market. The terms of KW loans vary from four to twenty years; interest rates on recent loans have varied between $5\frac{1}{4}$ to 7% depending on loan maturity.

The emphasis in the German foreign assistance program has hitherto been on private capital and commercial type of financing, with the government extending guarantees and refinancing facilities. Recently, however, the Federal Parliament approved a two-year program of public foreign economic assistance covering 1961 and 1962. Of a total of some \$1.25 billion equivalent, 85% has been earmarked for bilateral aid. Seventy per cent of the expenditure will be financed out of Federal and State budgets.

Sino-Soviet Bloc

Since 1954 when the U.S.S.R. embarked on its program for assisting countries outside the Communist Bloc, there has been a very sharp increase in the flow of assistance from the Sino-Soviet Bloc to underdeveloped countries in other parts of the world. The total volume of credits and grants for economic purposes alone is estimated to have amounted to the equivalent of some \$3.2 billion as of June 30, 1960.^{14/} Some 75% of this total is accounted for by the U.S.S.R. Although only about 20% of the aid committed has actually been used, indications are that the rate of disbursement will rise sharply.

The duration of credits made by the U.S.S.R. in most cases is twelve years; interest rate charged is uniformly $2\frac{1}{2}$ %.^{15/} The credits cover both the cost of prospecting and research which are invariably done by Soviet technicians and the cost of capital equipment supplied by the U.S.S.R.

^{14/} Report to Congress on the Mutual Security Program for fiscal 1960, U.S. Department of State.

^{15/} L'Aide Sovietique Aux Pays Sous-Developpes; Notes et Etudes Documentaires, La Documentation Francaise, No. 2760, March 13, 1961.

The share of African countries South of the Sahara in the total to date is relatively insignificant. So far only three countries have obtained credits and grants from the Bloc: Ethiopia \$114 million, Guinea \$42 million and Ghana \$3 million making a total of \$159 million of which some \$150 million was in credits. It must, however, be noted that Soviet interest in African countries South of the Sahara is of very recent origin; indeed the whole amount of \$159 million was extended in the fiscal year ending June 30, 1960. It may therefore be expected that the flow of assistance will continue in future. For example, China (Peking) is reported^{16/} to be considering an interest free loan of some \$25 million to Guinea; Ghana concluded a trade pact with the U.S.S.R. in August 1960 under which it will receive long-term credits of some \$40 million.

Other Bilateral Assistance

The above mentioned instances of bilateral assistance all relate to financing of Africa by countries situated outside the continent. Over the recent months there have been some cases where countries geographically located in Africa have granted credits and loans to other African countries. Details of these operations are not always available. One loan, however, has quite recently been announced which seems to deserve special mention. In June 1961 the U.A.R. granted to the Republic of Mali a loan for the equivalent of US\$17 million repayable in seven years at 2 $\frac{1}{2}$ % interest. The Republic of Mali is also reported to have received this year short-term accommodation in the amount of some \$11 million equivalent from Ghana.

Multilateral Assistance

In addition to the major sources of bilateral assistance mentioned above, several international organizations exist for providing financial and technical assistance to underdeveloped countries.

U.N. Technical Assistance

The U.N. provides technical assistance through a network of agencies such as the United Nations Educational, Social and Cultural Organization, the United Nations Children's Fund, the World Health Organization and the Food and Agricultural Organization. The U.N. also provides experts under the program for the "Provision of Operational, Executive and Administrative Personnel" (OPEX). Experts assigned to member countries under this program function as employees of the requesting government over the period of their assignment which is normally one year. The technical assistance activities of the U.N. are under the overall supervision of the Technical Assistance Board and are financed out of member contributions to the U.N. The number of African countries which have received assistance in this form is quite considerable.

^{16/} Barclay's Bank Review, February 1961.

Special Fund of the U.N.

The scope of the technical assistance program of the U.N. was further expanded through the establishment of the Special Fund. The Fund commenced operations on January 1, 1959 and participates in the financing of various activities such as resource survey and advanced technical training. In performing its functions it draws on the services of other U.N. specialized agencies including the World Bank and works in close collaboration with the U.N. Technical Assistance Board. The Fund is not a loan-making agency; it merely shares in the cost of preinvestment surveys out of funds contributed by member governments. As of the end of 1960, it had participated in eleven projects in African countries, costing an aggregate of some \$7.7 million, as follows (figures in millions of dollars): Ethiopia (1.4), Ghana (0.4), Guinea (0.4), Liberia (1.0), Nigeria (1.8), Somalia (0.9), Sudan (0.8), Togo (0.7) and Uganda (0.3).

International Bank for Reconstruction and Development (World Bank)

The International Bank for Reconstruction and Development (World Bank) is a specialized agency established in 1946 with the objective of assisting in the long-range balanced economic growth of its member countries. As of December 31, 1960, it had 66 members contributing a total of \$19.9 billion in capital subscriptions. Of this, however, only \$1.99 billion constitutes a cash subscription. The remainder represents a guarantee fund and serves as a backing for the bond issues that the Bank periodically floats to replenish its loanable funds; the amount of its funded debt outstanding as of December 31, 1960 was \$2.16 billion. A third major financial source consists of funds put up by other investors who may either directly participate in a loan at the time it is made or buy out of the Bank's portfolio of loans; by so doing not only does the Bank increase its lendable resources but it also encourages the flow of private foreign investments in the form of loans as required under its charter.

Indeed, the Bank tries to stimulate private foreign investment in several ways; apart from the participations already mentioned, it undertakes under appropriate circumstances a joint operation whereby a Bank loan is linked with a bond issue by the borrowing government.

The Bank lends to member governments and their agencies; it may also lend to private entities in member countries with the guarantee of the government of the country concerned.

The World Bank operates as a banker of last resort; it has to be satisfied that the borrower is unable otherwise to obtain the needed finance on reasonable terms. It finances only part of the total costs of a project, i.e., usually the foreign exchange component of such costs. The Bank normally finances only specific projects; the selection of projects is based on a careful study of priorities within the framework of development programs where such programs exist.

The bulk of its financing is in respect of infrastructure projects.

Of some \$5.5 billion in loans through December 31, 1960, over 30% was for electric power; loans for transportation accounted for roughly another 30%. About 15% has gone to finance industrial projects. Most of the loans have been made to governments and public entities, but in the field of manufacturing and mining the Bank has lent only to private enterprise in the belief that these activities had best be left to private initiative and management. All these loans must be government guaranteed.

As of December 31, 1960, the Bank had lent a total of \$515.1 million to countries in Africa South of the Sahara. By far the largest amounts were to Rhodesia and Nyasaland (\$146.6 million) and the Belgian Congo (\$120.0 million). Actual disbursements on total loans to Africa South of the Sahara amounted to \$333.8 million. The largest single loan made in Africa is the \$80 million credit to the Federal Power Board of Rhodesia and Nyasaland in 1956 for the Kariba hydroelectric project. Last year another large loan of \$66 million was made to the Société Anonyme des Mines de Fer de Mauritanie. The loan is to finance the purchase of mining equipment and services, construction of a 420-mile railway and building of a new port at Port Etienne; total cost of the completed project is estimated at \$190 million.

In 1960 the Bank made a loan of \$5.6 million to the British Colony and Protectorate of Kenya for agriculture. Despite its modest size, it is one of the most interesting of the Bank's recent operations. The loan is not linked to any particular project but is intended to finance a government program (The Swynnerton Plan) to develop African agriculture and thus to raise the living standards of African farmers. The program calls for the improvement of an extensive system of roads linking farms with marketing centers, the provision of agricultural extension services, education and water supply, cooperatives for farming, etc.

A similar loan of \$5.6 million equivalent was made to the Federation of Rhodesia and Nyasaland in April 1960 for the development of African farming in Southern Rhodesia.

An important aspect of Bank lending is the technical assistance associated with its normal loan operations. In order that its loans may make a maximum contribution to the economy of the borrowing country, the initial careful assessment of the merits of a project is followed up by periodic checks on the progress of the project.

In addition, the Bank arranges for and partly finances general survey missions to help member countries, at their request, draw up development programs. The countries in Africa South of the Sahara which so far have availed themselves of the Bank's help in connection with their general development programs are: Nigeria, Tanganyika and Uganda. A similar survey will be undertaken in 1961 for Kenya. The Bank also provides for training of senior officials of member governments in development techniques through its Economic Development Institute and arranges for a somewhat similar program for junior officials in its trainee program.

International Development Association (I.D.A.)

In the field of international long-term finance, the need for an agency which could assist in the long-term development of underdeveloped countries on more flexible terms than those of existing agencies became more and more apparent as years went by. Many countries through no fault of their own have only a limited or virtually no capacity to service external debt on conventional or commercial terms. If these are to develop at an adequate pace, they need help from an institution that can lend on relatively "easy" terms. To fill this need, the International Development Association, an affiliate of the World Bank, was established last year. It had 46 members with initial subscriptions amounting to \$868 million as of June 21, 1961. The larger part was contributed by industrialized countries which do not intend to have recourse to its financing facilities. The balance is contributed by countries in the process of development which may expect at one time or another to seek assistance from the organization.

The I.D.A. has great flexibility in determining the terms on which it makes assistance available. In general it will make loans repayable in foreign exchange, but with a long period of grace and subsequent maturities spread over an extended number of years. Moreover, it may not insist on interest payments, but only on a small service charge to meet administrative expenses. Thus the servicing of such loans will bear much less heavily than conventional loans on the balance of payments and budgets of underdeveloped countries.

The organization did not start operations until 1961. The first developmental credit made by I.D.A. on May 12, 1961 was for financing part of a highway development and maintenance program in Honduras. The credit was a 50-year interest free credit for \$9 million repayable in foreign exchange. After the initial 10-year period of grace, repayments will commence at the rate of 1% in the second 10-year period and 3% in the remaining 30 years. Honduras will pay I.D.A. a service charge of three-quarters of 1% annually on amounts withdrawn and outstanding, to meet I.D.A.'s administrative expenses. Two more credits extended by I.D.A. so far are \$13 million to the Sudan for financing the Roseires dam and \$60 million to India for highway development; they carry the same repayment conditions as the credit to Honduras. I.D.A. is presently studying a variety of projects such as industrial estates, municipal improvements and technical training besides road development, port facilities and irrigation works.

The criteria for I.D.A. assistance will be based on the same standards of project preparation and execution normally applied by the Bank in its loan operations. Indeed, the same country may well be the recipient of both normal Bank loans and I.D.A. credits; and in some cases the Bank and I.D.A. may participate in financing the same project as, was the case for, the Roseires project in the Sudan.

International Finance Corporation (I.F.C.)

According to the statutory requirements of the World Bank private

institutions in member countries seeking financial assistance must obtain the guarantee of their government. As the growth of private entrepreneurial investment (foreign or national) became more impressive over the last decade, the need was felt for an agency that would deal directly with private borrowers in member countries. Consequently, the International Finance Corporation was established in 1956 as an affiliate of the World Bank. As of December 31, 1960, it had a membership of 58 countries and a subscribed capital of \$96.2 million.

I.F.C.'s role in economic development is essentially that of a catalyst; it uses its rather limited funds to mobilize private capital for investment in private enterprise in the developing countries. Its investment partakes of some of the characteristics of both loan and equity. Thus, quite often part of its interest charges is fixed and part is contingent on profits. It also takes options on shares which, however, it can exercise only for the purpose of selling its participation in any investment. The I.F.C. itself is precluded by statute from owning shares, but an amendment enabling it to do so is now in the course of ratification by its members.

I.F.C. has as of the end of 1960 made only one commitment in Africa South of the Sahara. The investment amounting in all to \$6.4 million was in respect of the Kilombero Sugar Company and was made in association with the U.K. Colonial Development Corporation, the Netherlands Overseas Finance Company and Vereenigde Klattensche Cultuur Maatschappij; I.F.C.'s share in the investment was \$2.8 million.

International Monetary Fund (I.M.F.)

A discussion of international agencies in the development field should include a reference to the International Monetary Fund (I.M.F.). I.M.F. operational activities relate to short-term financial assistance for balance of payments purposes and not to assistance for development, but it does confer on its member countries a degree of stability in import capacity. Its very activity therefore tends to avoid undesirable repercussions of temporary disequilibria on investment activities of its member countries. In addition, a very considerable amount of consultative and advisory work is associated with its normal operations. This should properly be regarded as technical assistance; in addition, the I.M.F. has a training program similar to the World Bank but with more emphasis on financial and balance of payments problems.

Fonds de Developpement pour les Pays et les Territoires d'Outre-Mer (FEDOM)

FEDOM is an agency of the European Economic Community established under the Rome Treaty. A supplementary convention to the Treaty stipulates that the six members of the Community contribute to FEDOM a total of \$581.25 million over the five years 1958-62 for assisting in the economic and social development of their associated territories and countries most of which are in Africa. These resources are to be allocated by 1962 as follows: \$511.25 million to associated territories and countries linked to France; \$35 million for those linked with the Netherlands, \$30 million for those

associated with Belgium and \$5 million for Italian overseas territories.

FEDOM operates exclusively through a system of grants for developmental programs normally undertaken by public authorities; it does not finance current expenditures but investments. As of May 31, 1961, it had approved total assistance of \$158 million; \$92 million for economic projects and \$66 million for social programs. The distribution of the approved investments as between associated territories and countries linked with France, the Netherlands, Belgium and Italy was \$131.7 million, \$12.5 million, \$11.7 million and \$2.2 million respectively. Most of the assistance is expected to benefit African countries.

Flow of Private Capital

It is difficult to estimate the flow of private capital in recent years that went into countries South of the Sahara since most of these countries are either in the Franc Zone or the Sterling Area and capital movements within these currency areas are not subject to exchange control. Even data for the United States which are the most detailed that are available only show figures for direct investments in these countries. In the following paragraphs private capital flows from France, the United Kingdom, Belgium, the United States and Germany to Tropical Africa will be discussed insofar as available information allows.

The outflow of direct investment capital from France to the Overseas Franc Area is estimated to have amounted to some \$350 million equivalent in recent years; the figure includes reinvestments out of retained earnings. No data are available on how much Overseas residents invested in France. Nor is it known how much of the gross flows was to countries South of the Sahara; presumably the amounts were small since traditionally North African countries have absorbed the bulk of such flows and by far the major part of investment expenditure in other French Territories or French speaking countries was on public account.

United Kingdom official sources indicate that in the seven years prior to 1960 gross private investment overseas has averaged some £300 million annually. Included in this are loans raised on the London market by independent Commonwealth countries and the Colonies, averaging £55 million annually. The figure of £300 million does not, however, include commercial credits extended by the Export Credits Guarantee Department. Two-thirds of these investments are estimated to have gone to the more developed Commonwealth countries and about £100 million annually into the less developed areas. British dependencies in West and East Africa (including Aden) received about £233 million in the period 1957-59, i.e., about £77 million or \$216 million annually.

In the three years 1957-59 the overall inflow of long-term private capital from Belgium-Luxembourg (BLEU) into the Congo and Ruanda-Urundi was the equivalent of \$156 million but since there was a return flow of capital larger than this, BLEU's net capital contribution to the Congo and Ruanda-Urundi was on private account negative in the amount of \$74

million. While the bulk of this decline took place in 1959 and could be attributed to the unsettled political conditions in the Congo, it might be noted that in the nine years (1950-58) prior thereto, the net outflow of private capital from BLEU to the Congo and Ruanda-Urundi was only about \$37 million in all. This only suggests that the bulk of private investments that did take place during these years was financed out of retained earnings; indeed, according to data published by the Banque Centrale du Congo Belge et du Ruanda-Urundi, self-financing accounted for not less than 96% of private investments in 1950-57.

The United States encourages private foreign investment through guarantees of investments abroad. The I.C.A. Investment Guarantee Program covers risks arising from currency inconvertibility, expropriation or confiscation and losses incurred by war. Guarantees are accorded to approved investments which further the purposes of the Mutual Security Program up to a maximum of 20 years; there is a small fee of one-half of 1% per annum of the amount guaranteed in respect of each type of risk. The Development Loan Fund has also a program for investment guarantee; its coverage is broader and excludes only normal business losses. So far, however, there has not been much demand for the D.L.F.'s guarantee.

Over the decade 1950-59, the book value of U.S. direct investments in Tropical Africa rose from some \$90 million to \$370 million. In the three years 1957-59 alone, the total amount of U.S. direct investments financed by net new capital as well as retained earnings was about \$150 million; of this \$70 million was in new capital and the remainder was out of retained earnings.

West Germany, like the United States, has a program for guaranteeing private capital seeking investment abroad. Besides the risks of expropriation, transfer restrictions and war, the program covers such other risks as losses through moratoria and currency depreciation. The guarantee is limited to new investments of mutual benefit to the recipient country and to West Germany. Normally the term is 15 years (in exceptional cases 20 years); maximum coverage is limited to 80% of the principal amount and to 24% of returns on the investment.

Direct investments of West Germany in Africa according to the Information Bulletin of the Federal Government have amounted in all to some \$43 million equivalent between February 1952 and December 31, 1960. This corresponds to some 6.1% of the \$695 million of direct investments of West Germany in all parts of the world.

One general observation may perhaps be in order here. One could, of course, presume that recent internal political developments in various parts of Tropical and Equatorial Africa, particularly in the Congo (Leopoldville), should have acted as a deterrent to a further inflow of private capital. In some other countries there may presumably have been a net outflow rather than a net inflow. It is all the more remarkable that new plans for further agricultural, industrial and, of course, mining investments should come to light so often. Gabon, Nigeria, Ghana, Liberia, Mauretania are the most conspicuous instances. But there are others.

II. Some General Considerations

The preceding analysis of capital inflow in the recent past may now be supplemented by some general comments bearing on the future needs for external assistance of Tropical Africa.

(a) Mobilizing Domestic Financial Resources

A first problem which appears relevant in connection with the future requirements for public external assistance is that of the ability of the various countries concerned to mobilize financial resources themselves, i.e., domestically, without resorting to inflationary financing. A complete analysis of this problem would require a detailed examination of financial conditions in individual countries and is outside the scope of this paper. We believe, however, that some general factors can be mentioned which have an important bearing on the subject and affect to a larger or smaller extent the public finances of many of the countries in the area.

In many African countries the possibilities for the accumulation of public savings (i.e., the difference between current government revenue and current government expenditure) appear to be small or even non-existent for the time being.

On the revenue side a basic fact is that the scope for increasing the tax burden is very limited in many parts of the area due to the very low per capita income levels which still prevail. There are differences in this respect, of course. European settlers, who, apart from the Union of South Africa, are relatively most numerous in the Rhodesias and in Kenya, are a class apart from the standpoint of income and ability to save. Sizeable differences also exist among African living standards. Overall, however, income levels in many areas South of the Sahara are still among the lowest in the world. Another factor limiting taxable capacity, partly related to the one just mentioned, is the still very important role of subsistence agriculture in many areas. There are only a few countries in the area where large amounts of public revenue can be derived from mining, large-scale plantation agriculture or smallholders agricultural production for export markets.

On the other hand, current public expenditures are bound to be high in many countries due to a variety of circumstances. In many areas of Tropical Africa there is a particular need for basic infrastructure recurrent activities such as topographical mapping and soil, water and geological surveys. Also, there is a pressing need for the development of skills and education generally. The fact that in many areas agriculture is the main source of income now and is bound to stay so in the foreseeable future means that relatively high priority will have to be accorded to such items as agricultural research and extension schemes (besides soil and water surveys, already mentioned). Yet another problem is that many countries in the area have small populations, which tends to make the provision of some basic services relatively expensive (a good example is representation abroad).

Due to these reasons a considerable number of African countries will presumably not be in a position to make an important contribution to the financing of public investment expenditures through budgetary surpluses.^{17/} In fact a number of countries and territories have been in deficit on their current expenditure budget in the past.

It is moreover obvious that the possibilities of mobilizing financial resources for the public sector by means of domestic borrowing other than from the central or commercial banks (i.e., without additional money creation) are very small in most cases. Consequently, if expenditure on development is to be increased in the years to come, shortages of financial resources may well give rise to problems of management of domestic finances; there will be a need to prevent harmful inflationary pressures.

In two respects the general picture of the public finances of African countries presented in the preceding paragraphs is too pessimistic.

In the first place, in a number of countries the assistance provided for current budgetary purposes by the former metropolitan territory is not likely to disappear overnight. It is most unlikely, for instance, that France will suddenly withdraw its traditional support to the budgets of several French speaking countries, or cease to pay for a number of civil servants whose salaries are now contributed by France under its technical assistance program.

In the second place, the view can rightly be held that a number of current expenditures in effect constitute a contribution to development. Sanitation, communications, maintenance, and of course education entail recurring expenditures which are properly not included in an investment account. They do represent an important factor not only in the welfare but also in the progress of any country.

(b) Prospects for External Financial Assistance

We may now add a few general comments about the external financial assistance that will be required by Tropical Africa and the conditions under which these requirements might be met.

Efforts are sometimes made to approximate the amounts of foreign assistance that will be required by underdeveloped countries by starting out with a desired rate of growth in income (taking into account the expected rate of increase of population), and calculating the amounts of investment required to achieve this growth in income on the basis of capital output ratios. Required foreign assistance is then found as the difference between calculated investment and estimated domestic savings. Although estimates of this kind may be revealing to show the relationship between a desired rate of growth in income and the amounts of foreign assistance needed to realize this growth, they are of little value and may even be misleading in assessing the amounts of aid that individual countries will be able to absorb for programs and projects of high

^{17/} Some countries in the area (such as Ghana, Nigeria and Uganda) have been in a position to accumulate considerable public surpluses in the course of the 1950's when prices for their major export products were high. In these cases the financial position is stronger for the time being.

priority in the context of economic development. An assessment of this "absorptive capacity" can only be based on a detailed study of programs and projects in individual countries, including the feasibility of executing these programs in the light of available managerial and technical skills. Some areas of Tropical Africa have already made progress along these lines, but in many other cases only very little has been done so far. Under these circumstances estimates of the absorptive capacity for external assistance for Tropical Africa as a whole, when related to a somewhat longer period, are bound to be very uncertain. This simply underlines the need for technical assistance in a great number of fields.

As far as the most desirable distribution of development expenditures by sectors is concerned, generalizations for the area as a whole are just as hazardous. As follows from previous remarks, many areas presumably share the need for considerable expenditures for current development purposes. In the field of investment expenditures proper it is noteworthy that in some parts of Tropical Africa substantial amounts have already been spent on basic facilities like roads, railways and public utilities; but this is by no means universally true.

With respect to conditions of future external public assistance, there would in many cases appear to be a clear need for relatively lenient terms. Creditworthiness for the servicing of foreign exchange loans on conventional terms is low in a number of cases. Partly related to this is the probability that the rate at which returns on a good many programs and projects will be realized will turn out to be rather slow. For instance, in the case of projects designed to raise agricultural yields, limited experience suggests that benefits may well be uncertain and delayed. The problems of African agriculture are in many areas complicated by difficult natural conditions and land deterioration, giving rise to a need for investments designed primarily to stop a decline in production rather than to promote an increase in output.

While a substantial and continuous flow of external public funds will be essential to the economic development of Africa, the contribution that private capital could make to development should not be ignored. Political changes and disturbances have not been conducive to the flow of private capital in large parts of Africa in recent years. One may hope that with more stable conditions the tide will turn. Guarantee programs like those of the United States and Germany may help to increase the flow of private capital, although they are no more than incentives. On the part of host countries assurances that foreign capital will not be expropriated without reasonable compensation, that facilities for the transfer of profits and dividend will be made available and that generally foreign capital will not be treated less well than local capital will be of help. But unlike public capital, private capital movements are motivated by strictly financial considerations so that many factors other than the ones mentioned, such as tax levels and the availability of basic infrastructure activities, technicians, administrators and a skilled working force may influence ultimate decisions of private investors.

We have seen that the supply of public foreign capital available to African countries in the recent past was predominantly bilateral in nature.

An important problem is raised here by the progressive loosening of political ties between the two major aid-giving European countries, France and the United Kingdom, and their dependent African territories and colonies. It would be unfortunate if this phenomenon were to affect both the total flow of bilateral aid available from these countries and the assurance that aid will be available on a longer term basis (which is important in connection with long-term planning). One may hope that ways will be found that will enable these European countries to continue their assistance to Tropical Africa on at least the same scale as that prevailing in the recent past. As far as United States aid is concerned, it seems fair to assume that this will increase. The growing importance of Germany as a potential source of aid was mentioned earlier. The U.S.S.R. remains an uncertain factor.

In the field of multilateral aid we have seen that the European Development Fund, the Special Fund of the U.N. and the International Development Association have been the most important recent additions to the group of international agencies that are able to provide assistance to African countries. Although one may hope for an increase in aid from these sources in the years to come, there are clear limitations on what they can do, stemming primarily from their limited resources.

Given these limitations, the prospects for external economic assistance largely depend on the recipient's capacity to utilize it effectively, if possible, in association with domestically available resources. This assumes to an extent the prior existence of a sound developmental program or projects within the general framework of such a program and, more importantly, a demonstrated capacity to implement and execute a plan of development. Countries with an efficient planning organization and a trained cadre of administrators capable of drawing up and implementing an investment program with due regard to the relative priority of its component projects will clearly find it easier to obtain external economic assistance. Bilateral or multilateral aid can be expected to be motivated by economic as well as financial consideration. The easier it is to demonstrate the economic benefit deriving from an investment program or a set of projects, the easier it is to convince official assistance that its contribution will materially enhance the well being of Africa.

Sources:

- OEEC: The Flow of Financial Resources to Countries in Course of Development, 1956-59, April 1961.
- Report of the European Economic Community (Direction Générale de Développement de l'Outre Mer) relating to the operations of the European Development Fund, May 1961.
- U.N.: Economic Survey of Africa since 1950.
- U.N.: Statistical Yearbook 1959.
- U.N.: International Economic Assistance to the Less Developed Countries, 1961.
- U.N.: Reports of the Economic Commission for Africa.
- U.N. Special Fund: Status of Projects approved by the Governing Council as of December 31, 1960.
- Stanford Research Institute: African Development, A Test for International Cooperation.
- Banque Centrale du Congo et du Ruanda-Urundi: Bulletin Mensuel, November 1959.
- Banque du Congo Belge: Bulletin Mensuel, June 1960.
- France: Reports of the Comité Monétaire de la Zone Franc: "La Zone Franc", 1957, 1958 and 1959.
Reports of the Fonds de Développement Economique et Social, Second and Fifth Reports.
Caisse Centrale de Coopération Economique: L'Aide Accordée par La France en 1959 pour le Développement des Etats d'Afrique Noire et de Madagascar, des Territoires et Départements d'Outre Mer, May 1960.
La Documentation Française: Notes et Etudes Documentaires, February 8, 1960 and March 13, 1961.
- Germany: Bulletin des Presse und Informationsamt der Bundesregierung, April 6, 1961.
- United Kingdom: Assistance from the United Kingdom for Overseas Development, Cmnd. 974, March 1960.
The United Kingdom's role in Commonwealth Development, Cmnd. 237, July 1957.
Return of Schemes made and of Loans approved under the Colonial Development and Welfare Act, March 31, 1960.
Colonial Development Corporation: Annual Report and Accounts for the year 1959.
Colonial Office: Annual Reports on "The Colonial Territories".

Sources: - contd.

- United States: International Cooperation Administration: U.S. Foreign Assistance and Assistance from International Organizations, Obligations and Other Commitments, July 1, 1945 through June 30, 1960.
- Development Loan Fund: Annual Report 1959.
- Development Loan Fund: Fiscal Year 1961 Estimates.
- Reports to the Congress on the Mutual Security Program, various dates.
- Department of State: unpublished memorandum on "Economic Assistance as a Cooperative Effort of the Free World" 1960.
- IBRD-IDA: Annual Reports, Financial Statements, Press Releases, etc.

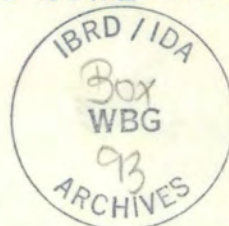
To be delivered by M. List at a seminar on "Problems of Financing National & Multi-National Development Projects in Africa", in Monrovia, Liberia, on or about Dec 13, 1961

THE ECONOMIC USE OF INTERNATIONAL RESOURCES IN FINANCING DEVELOPMENT PROJECTS

Draft

J. M. Croome - Nov 27, 1961

(A few words on IBRD - IDA)



I think I should begin with a warning: I am going to confine myself to a discussion of the appraisal techniques which we at the World Bank have, over the past fifteen years, learned to apply in our own lending for development projects. However, I believe that most of these techniques are applicable in virtually all development financing; certainly we have found they need very little modification to act as a satisfactory guide for putting the "soft loan" resources of the International Development Association to work

The first question we have to consider is whether a particular country should borrow abroad at all. This is not quite the same question as whether a lender (or donor) should make money available to the country. We should be unrealistic if we failed to recognize that loans and grants are often given for frankly political reasons. More respectably, however, they may have to be rationed out by the country or institution offering help, simply because the resources available are not adequate to meet all the demands upon them. To our great regret, we have had to put such arbitrary advance limitations on

the amount of aid the International Development Association can offer to ~~some~~ or two of its largest underdeveloped member countries: otherwise, the smaller countries could easily be deprived of a fair share of its resources. But there are purely economic considerations, as well, which must limit the amount which a developing country can prudently borrow abroad. And while not easy to define precisely, these limitations can be assessed in a reasonably detached way; the same approach used by the Bank, for instance, can be used by the borrowing country itself.

We sum up this assessment of the amount a country can safely borrow as its creditworthiness. A country's creditworthiness, I would emphasize, is not all the same thing as its trustworthiness. Several countries in whose probity the Bank has the most complete trust are, unfortunately, also countries which are hardly creditworthy at all. What we try to measure as creditworthiness-- a far from attractive word, incidentally -- is the capacity of a country to service foreign borrowing without putting an undue strain upon either its internal finances or its balance of payments. To put it less technically, we try to decide roughly how much a country can borrow abroad on conventional terms,

without serious risk of thereby involving itself in financial difficulties later on. Once the limits of creditworthiness are reached, further development assistance from abroad can safely be taken only in the form of soft loans (such as our IDA credits, which bear little or no interest, and are repayable over a very long period) or outright grants. And sadly, but not surprisingly, finance in this form is less freely offered than conventional loans.

This question of creditworthiness comes up both when we look at the proposed development project, and when we examine the general economic situation of the borrowing country. It is not enough that a project be sound in itself, making it possible to accumulate local funds for repaying the money borrowed to finance it. Most international loans must be repaid in foreign exchange. If a borrowing country runs into foreign exchange difficulties, it may be unable to keep up service of any part of its external debt, even though the projects for which it borrowed were essentially sound.

Sometimes, a project may itself earn foreign exchange directly. Examples might be projects for developing mineral resources for export: as you may know, the World Bank is currently financing two such projects (for the mining

of iron and manganese ore) in Mauritania and Gabon. Here, provided sufficient foreign exchange earnings are set aside to service the international loan, no problems of creditworthiness arise. But more often, even when a project leads to increased exports, it is not possible to set aside specific foreign exchange income in this way. When this is so, one can assess a country's ability to find the foreign exchange needed to service international debt only in terms of its foreign exchange earnings as a whole.

Of course, a project may save foreign exchange, rather than earn it. The favorable effect on the balance of payments is the same in either case. But experience has made us a bit suspicious of import saving projects. Too often they entail some kind of subsidy or tariff protection, the cost of which falls on export industries, along with the rest of the economy. This can distort the pattern of a country's investment, and stunt the growth of exports, which in the long run are likely to provide the most effective stimulus for general economic development within a country.

The size and terms of existing external debt are obviously central in determining whether a country should undertake further foreign borrowing. What matters here is not so much the total amount of foreign debt as the proportion of it which is repayable at short term. If too much short-term

debt is taken on, perhaps in the form of export credits offered by foreign suppliers of capital goods, the annual burden of repayments may increase much more quickly than foreign exchange income, forcing the borrower either to impose severe import restrictions or even, unless it can obtain emergency assistance, to default. Some of the Latin American countries have run into this kind of trouble recently. The amount that has to be paid in service charges in each given year is much more important than the total amount of debt outstanding. If interest rates are low, and repayment schedules long, a large external debt can be carried with only a small annual charge to be met out of export earnings.

Very often, development projects take a long time to pay for themselves.

If they are financed by short-term borrowings, repayment can place serious strains on a country's foreign exchange income, and damage its ability to meet the difficulties of those almost-inevitable years when export earnings are lower than expected. The difficulties will be increased if the slow-maturing project is government-financed and not directly revenue-producing, since the burden of debt service will fall directly on the government budget.

Finally, one must recognize that government policies can have a major influence on a country's balance of payments, and thus on its ability to

carry additional external debt. Creditworthiness depends importantly upon the success with which a government keeps the over-all demand for foreign exchange within the limits set by exports, invisible earnings and the proceeds of external borrowing and foreign aid. It will find this very difficult if it adopts inflationary policies, since these tend to stimulate imports, to hamper exports, and so to encourage running-down of reserves or accumulation of short-term foreign obligations. It will find this difficult, too, unless it is prepared to face the unpleasant adjustments which are often made necessary by a sudden fall in export earnings--a circumstance with which most of the primary producing countries have become only too familiar in recent years.

It would be only natural for the developing countries to regard the matter of creditworthiness as of concern only to the potential lender. Certainly the lender will give it a great deal of attention: he wants to get his money back, eventually. But it concerns the borrower as well. It cannot be economic to borrow abroad for any project, if the strain of repayment is going to involve the entire country in financial disaster.

Assuming that a country can afford to borrow, what should it borrow for?

By definition, there should never be any shortage of possible development projects in an underdeveloped country. The difficulty is to decide which among them deserve priority --- "priority" in this sense implying not that any one project can hold the key to national development (a dangerous delusion) but that a selected project deserves a place in the front rank, along with others chosen for their importance in different fields. The guiding rule must be to direct investment into those projects which will make the greatest possible contribution to the economic growth of the country concerned.

Ideally, this approach calls for a detailed appraisal of investment possibilities in each sector of a country's economy -- a slow and expensive business. As I shall argue later, an appraisal of this kind is of such value that the expense can be justified. But fortunately, one usually need not wait for the conclusion of such a comprehensive analysis before making a start on the most urgent projects. All that is needed to bring these to light is a reasonably methodic examination of the broad requirements of each economic sector.

Such an examination tends to divide itself naturally between basic services, on the one hand, and the needs of industry and agriculture on the other.

By basic services, I mean such things as roads, railways, electric power generating stations and transmission networks and ports. Without these services, which are often the responsibility of the government itself, other sectors of the economy cannot grow. If one basic service is failing to meet the demands upon it, the effects will be serious, and the urgent need for investment will usually be obvious. Let me give two examples, both of which resulted this summer in a loans being made by the World Bank. In Colombia, the demand for electric power in the city of Medellin has been growing at the rate of about 11% a year, and has outstripped generating capacity. In consequence, power rationing has been in force for both private householders and industry, and manufacturers who want to keep their factories running have had to install their own power plant. We lent the local power authority \$22 million to meet the foreign exchange cost of a hydroelectric scheme which should cover Medellin's power needs for the next seven years. In India, the Hooghly River has been silting up so badly that normal-sized seagoing ships have found it increasingly difficult to reach the Port of

Calcutta, and the import and export trade of India's most important industrial region has been seriously handicapped. A loan of \$21 million we signed in August will finance the purchase of dredges to keep the river clear, as well as a hydraulic study aimed at finding a long-term solution to the navigational difficulties.

Those were comparatively easy cases. It is less easy, however, to know if an investment in basic services deserves high priority when it is proposed as a means of stimulating investment elsewhere. One cannot assume that a new road, or new sources of power, will inevitably foster local agriculture or industry. Sometimes investments of this kind have conspicuously failed to justify themselves.

A difficult problem in drawing up a public investment program is to keep a proper balance between economic, or directly productive, projects and social projects which, though highly desirable, make no direct contribution to increased production of goods or services. Most government of poor countries are aware of the unpleasant fact that their resources are inadequate to provide the public welfare services now becoming commonplace among the industrialized nations. It is even more painful to recognize

that their ability to finance urgently-needed education programs, water-supply projects and the like may also be limited. Even in the straightforwardly economic field, it is necessary to maintain a reasonable division of resources between directly revenue-earning projects, such as railways, harbors and power stations, and projects, such as flood control works and (sometimes) roads which, while they do add to national income, do not earn revenues directly for the government. If too little attention is given to the revenue-earning aspect of projects, a heavy strain may be placed on the government's current budget.

The risk of making the wrong investment choice is much reduced if the government concerned has a general idea of the way in which it expects the country to develop. For this reason, we at the World Bank strongly encourage our member governments to draw up development plans, realistically based, which will provide guidelines for public investment in their countries over a period of five to ten years. We ourselves stand ready to give what help we can in drawing up these plans, by lending staff members of the Bank to governments to advise on development programming, by recruiting outside experts to serve in the same role, or by organizing survey missions which will spend a few months in a country examining

all sectors of its economy before preparing a comprehensive report. The precise task assigned to the mission or representative varies from one country to another, but the general approach is usually the same: to quote from a representative example (the instructions given to a mission we sent to Nigeria some years ago) it is "to assess the resources available for future development, to study the possibilities for development in the major sectors of the economy and to make recommendations for practical steps to be taken, including the timing and coordination of developmental activities". So far we have organized more than twenty such missions, including five to African countries.

Ultimately, of course, it must rest with the governments concerned to decide how they will invest the resources at their disposal. But this task can be made very much easier with the help of severely practical surveys of this kind, based on the one hand on an appraisal of opportunities over the whole field for government investment -- social as well as economic -- and on the other, on a realistic assessment of the resources available. The surveys have a further advantage. They are usually published. This means that not only the Bank but also other potential lenders are able to acquire an informed view of a country's plans and problems; the consequence is likely to be a better and more sympathetic understanding of its needs.

It is less easy to assist development in the industrial sector. Industrial investment is inherently more complex and risky: problems of technical obsolescence, of fluctuations in prices of raw materials, and of marketing (particularly if the product has to compete in export markets) increase the chances of loss, and demand managerial ability of a kind which, if available within the government, cannot well be spared for supervision of a single enterprise. For severely practical reasons, rather than those of capitalist prejudice, we believe that where ever possible, governments should reserve their scarce human and financial resources for investment in those essential basic projects to which private capital is unlikely to be attracted. A clear indication that the government does not intend to compete in the industrial field is in itself likely to act as a strong inducement to investment by privately owned companies. Here, incidentally it is worth noting that foreign private industry is potentially just as important a source of development capital as any government or international agency now lending to the poorer countries.

This leaves unsolved, however, the problem of encouraging medium-sized or small businesses. These may well encounter great difficulty in raising long-term capital, as they are normally too small to interest the overseas investor.

One possible answer, we have found, lies in the establishment of national development banks, which often attract the support of both domestic and foreign investors, which offer a suitable means for the government to provide funds for small industry without becoming involved in its management, and which can in turn bring to the problems of the small businessman the local and detailed knowledge and understanding that are needed in this field. The World Bank has given advice in setting up development banks in many countries and has made loans to support the work of a number of them.

The encouragement of agriculture is perhaps most difficult of all. There are, of course, straightforward occasions when projects exist that can be expected to make good use of large amounts of international resources--for instance, major schemes for flood control, drainage, irrigation or land reclamation. Some of these schemes can be expected to pay for themselves directly out of their own revenues. This is the case with two big irrigation schemes which we are helping to finance in the Sudan. Other projects may set budgetary problems for the government, since their benefits tend often to flow only to the farmer, leaving it to the government to service any international borrowings

involved out of its general tax revenues.

Further scope for direct agricultural lending may be found in credit schemes to help the cultivator buy implements (perhaps through the medium of an agricultural development bank) or in the finance of marketing cooperatives. And of course, many projects for basic services have a direct and very great impact on agriculture -- in particular, the provision of farm-to-market roads, water supplies and electricity.

But it is clear that money alone will never solve the agricultural problem of the underdeveloped countries. The availability of international funds is quite obviously not the key factor: agricultural development depends much more on the adoption of new techniques, on extension work, on the reform of land tenure, on a whole revolution in social attitudes. All of these are needed before much money can be put to good use.

Nevertheless, the more I see of the underdeveloped world, and of Africa in particular, the more I am convinced that the most important challenge to all those concerned with economic development there lies in agriculture. There is a very real danger that the comparative ease with which large industrial, power

and transportation projects can be formulated may lead us to neglect the problems of agriculture. Yet the vast majority of Africans earn their living from the soil, and this is likely to be so throughout our lifetimes.

Agricultural development is a slow business, and seldom spectacular. But there is evidence on this continent that quite startling changes in living standards and productivity can be achieved by the ordinary farmer when money is put to work in intelligently-directed combination with social reform, and with the provision of technical and other help designed to arouse the cultivator's enthusiasm and to provide him with the knowledge he needs to make good use of the seeds, fertilizer, water supplies, tools and communications that money can buy. I should be very sceptical of any development plan for an African country which did not put primary emphasis on the improvement of agriculture.

So much for the general considerations that should influence us in deciding how to put available international resources to work in support of economic development. But how are we to decide whether a particular project deserves support?

Here again I must give a warning. I am not going to discuss the choice

of social projects, although I am well aware that these -- particularly in the fields of education and public health -- can play an essential part in economic development. Their problems call for assessment by persons having an expertise that I, for one, do not possess. And because my time is short, I am not going to consider the purely technical or commercial assessment of projects, or the difficulties of arranging appropriate financing terms for them, since all of these matters, although extremely important, fall somewhat outside my brief for today. I would, however, like to emphasize in passing that this kind of detailed investigation is indispensable. We find at the Bank that in practise we must spend more time in considering these matters than we do in studying the general economic aspects of projects. Today, though, I want to concentrate on the latter problem -- the question, that is, of whether a particular project will make a large enough contribution to the country's economic development to justify the investment it will require.

We can assume, following our earlier discussion, that the project belongs to an economic sector (say, power, or agriculture) whose development is believed to be of the first importance. We can assume, too, that the international resources to be employed will be made available on terms which will not

put an undue strain on the country's balance of payments or its budget. The task which remains is to decide whether a particular project will best meet the needs of the sector concerned.

This decision will normally involve some sort of market study, the extent of which will depend on the kind of project being considered. Plans to grow crops or to mine ores for export may require that we analyze demand and supply prospects on a world-wide scale for the commodity concerned. This would obviously be true of cocoa or coffee-growing projects. On the other hand, a project to expand power supplies to a small area should require only a comparatively limited market study.

Theoretically, it is easy to define a satisfactory development project as one which earns (directly or indirectly) a reasonable return on the capital invested in it. This definition does not distinguish very well between purely financial returns and overall economic returns to the country. (Speculative office construction, for instance, may easily be the most remunerative form of investment; beyond certain limits, it is not likely to show the highest economic returns). Now, unfortunately, does this definition specify what rate of return is to be considered "reasonable". In the perfectly competitive economy of classical economics, a reasonable return would have to be at least as great as could be

obtained by investing in comparable enterprises in the same country.

But the perfectly competitive economy does not exist, either in the developed or the underdeveloped world. Rates of interest, in particular, are sometimes artificially manipulated, thus losing their value as a measure. Projects in the "basic" sector, such as power systems, railways, and irrigation schemes, generally have a monopoly position which makes it difficult to compare them with any others. Here assessment may have to be based on comparison not with alternatives within the country, but with costs and returns for similar schemes elsewhere.

Returns on projects which are not revenue-earning are also difficult to work out, although the techniques involved are fairly well known. For the most part, they involve calculating the value of what one might describe as a succession of detailed and informed guesses. A common example would be the method used to assess the value of rebuilding an existing road, where a series of calculations about reduced tire wear, lower fuel consumption, fewer repairs and so on is reduced to an over-all figure showing the expected reduction in costs per ton-mile.

An economic appraisal of this kind must not leave out the indirect returns

provided by a project. These may be of crucial importance in choosing between two projects, each of which costs about the same amount and provides a similar direct return in goods or services. One of these projects may well establish itself as clearly the best choice, not because it provides a measurably higher financial return, but because it makes better use of idle resources, human or material, or because it is likely to encourage further development. An example might be a choice between two possible routes for a railway, both costing about the same to build, both providing satisfactory shipment for goods being sent from one end of the line to the other, but only one crossing territory where economic development was likely to be stimulated by the improvement of communications. A similar situation might arise between two factory projects, one of which would operate very much on its own, while the other could be expected to stimulate the growth of related firms, serving it with raw materials or providing final processing for its products.

Account must be taken of indirect costs, as well as indirect returns. Many projects depend for their success on additional investment being undertaken elsewhere. This is obvious in some cases -- for instance in the iron mining operation in Mauritania, where the chief expense is not that of excavating the

ore, but of building a railroad to carry it across 400 miles of desert to the sea. It is less evident, but still important, where a new factory will put a strain on local electricity supplies which can be met only by installing additional generating equipment.

Another important question in considering the economic merits of a particular project is the effect which it is likely to have on the country's balance of payments. On the credit side, will it generate increased exports, or provide an alternative source of goods or services which must at present be imported? On the debit side, how much is it likely to burden the balance of payments with the cost of spare parts, raw materials and, of course, debt service? One must not overlook the possibility of important indirect effects on the balance of payments as well. To mention only one example, the use of a large number of agricultural workers on a road building project may well make it necessary to increase imports of food.

Quite often, the selection of a project may involve a choice between two fundamentally different solutions to the same problem. This happens particularly with large transportation projects, when it may be necessary to weigh the advantages of a new road against those of a new railway, and both in turn against

a project for improvement of river navigation. A similar choice may be needed between different way of producing energy. A familiar problem is that of choosing between a hydroelectric project (which usually has a high capital cost, but low running costs) and a thermoelectric plant (which is cheaper to build, but more expensive to run).

Yet another point of importance is whether the project's success is dependent on protection against competition. Commonly this protection may be given in the form of tariffs or quotas limiting the opportunities given to foreign suppliers of goods or services: within the country, it may be given by discriminatory taxation, by limiting the freedom of the competitor (perhaps to favor rail transport at the expense of the road user). Protection can on occasion be justified, particularly in the familiar case of the "infant industry" which needs to be given some help for a limited period while it establishes itself. But we should recognize that its use represents a distortion or diversion of natural economic forces. Used to excess, or in the wrong situation, it can mislead us into diverting scarce resources away from useful development projects into schemes which have no real economic justification.

Finally, one cannot leave out of account any regulations which may make

it difficult to execute and operate a project economically. These are most often of importance in the case of regulated monopolies such as public utilities, and in our experience cause most trouble when they limit pricing policies or interfere with independent management. It would be invidious for me to give specific examples here, but the sort of thing I have in mind is a government-imposed railway fare structure that requires that a favored type of product be carried at a loss, an imposed ceiling on power rates that makes it impossible to set aside profits for future expansion, or the appointment of persons to top management positions on the basis of political acceptability rather than expert knowledge. I should add that abuses of this kind are just as prevalent in the developed countries as in the underdeveloped world.

For those with the responsibility of trying to encourage the development of their countries, the foregoing may seem a rather daunting list of requirements. But it is no good trying to hide from economic facts. I believe that all these conditions are indispensable -- you cannot make satisfactory use of international resources unless you are certain that your country can afford to borrow, unless you know that the sector of the economy in which you want to invest is

sufficiently important to deserve your attention at this stage, unless you have made sure that the particular project you select will provide an economic return justifying its cost. I have no sympathy for those people who apparently feel that they have a special dispensation which allows them to waste scarce resources with impunity, and I do not think they will find much sympathy, either, in any international organization to which they may look for funds.

On the other hand, I do recognize that some countries, in Africa, and elsewhere may feel themselves ill-equipped to tackle the assessment of development possibilities in their territories. I trust that no country will on that account feel unable to embark on development projects. There are many people, not least at the World Bank, who are both qualified and anxious to help the developing countries in this task. I hope you will call upon us.

L'UTILISATION RATIONNELLE DES RESSOURCES INTERNATIONALES
POUR LE FINANCEMENT DES PROJETS DE DEVELOPPEMENT (*)

Leonard Rist

Représentant spécial de la Banque Mondiale pour l'Afrique.



Je voudrais tout d'abord faire une observation : je me bornerai ici à analyser les méthodes d'appréciation que nous avons progressivement mises au point, à la Banque Mondiale, pendant les quinze dernières années pour nos propres prêts de développement. Au demeurant, je crois qu'en pratique, la plupart de ces méthodes sont applicables à tout financement concernant le développement; nous avons constaté qu'elles pouvaient, sans grande modification, servir à orienter convenablement les disponibilités que l'Association Internationale de Développement peut prêter à des conditions "favorables". Trois questions se posent à cet égard : Combien un pays peut-il emprunter à l'étranger ? Dans quel secteur devrait-il effectuer de préférence ses investissements ? Comment les projets individuels peuvent-ils se justifier, surtout du point de vue économique ?

I. On peut d'abord se demander si un pays doit vraiment emprunter à l'étranger ? Ce n'est pas tout à fait la même chose que de savoir si un prêteur (ou un donateur) doit mettre des moyens financiers à la disposition du pays. Ne pas reconnaître que les prêts et les dons sont parfois accordés pour des raisons qui ne sont pas purement économiques serait manquer de réalisme. Le pays ou l'institution qui offre son aide peut cependant

(*) Etude présentée par M. Rist lors d'un séminaire sur les "Problèmes posés par le financement des projets nationaux et internationaux de développement en Afrique", qui s'est tenu le 13 Décembre 1961, à Monrovia, sous les auspices du Gouvernement du Libéria.

avoir à la rationner, pour cette simple raison que les ressources disponibles ne permettent pas de satisfaire toutes les demandes, ce qui est en soi un motif plus honorable. La Banque Mondiale n'a pas eu à recourir à cette limitation, mais à notre grand regret nous avons dû accepter de restreindre le montant d'aide que l'Association Internationale de Développement pouvait offrir à un ou deux des principaux pays membres sous-développés du fait que ses fonds proviennent des souscriptions de ses participants et non, comme dans le cas de la Banque, de souscriptions et d'emprunts. D'autre part, certaines considérations purement économiques doivent nécessairement limiter le montant que le pays en voie de développement peut, sans risque, emprunter à l'étranger. Et s'il n'est pas facile de les définir avec précision, ces limitations peuvent néanmoins être déterminées avec une certaine objectivité; c'est ainsi que le pays emprunteur pourrait, par exemple, appliquer la même méthode que la Banque.

Nous appelons "capacité d'endettement" le montant qu'un pays peut emprunter sans risque. Je tiens à souligner que la capacité d'endettement d'un pays n'a rien à voir avec la confiance dont il jouit. Plusieurs pays à la probité desquels la Banque se fie entièrement sont malheureusement ceux dont la capacité d'emprunt est à peu près inexistante. La capacité d'endettement - expression certes peu élégante - que nous essayons de déterminer est l'aptitude d'un pays à assurer le service de la dette extérieure sans que ses finances intérieures ou sa balance des paiements s'en trouvent lourdement obérées. Il s'agit en somme de savoir combien un pays peut emprunter à l'étranger aux conditions classiques sans risquer d'encourir ultérieurement des difficultés financières. Une fois atteintes les

limites de sa capacité d'endettement, un pays ne pourra plus demander sans risque une aide étrangère pour son développement que s'il s'agit de prêts assortis de conditions favorables (comme le sont nos crédits AID qui ne portent guère ou pas d'intérêt et dont le remboursement s'échelonne sur une très longue période) ou de dons purs et simples. Or nous devons constater avec regret, mais sans surprise, que cette forme de financement est en général plus difficile à obtenir que les prêts classiques.

La question de la capacité d'endettement se pose à la fois quand nous examinons le projet de développement envisagé et quand nous considérons la situation économique générale du pays emprunteur. Il ne suffit pas qu'un projet soit sain en lui-même et permette d'accumuler sur place des fonds pour rembourser la somme empruntée, ni même que les perspectives de croissance économique générale ouvrent la voie à un accroissement de l'épargne. En effet, la plupart des projets internationaux doivent être remboursés en devises, et si la position étrangère d'un pays emprunteur devient difficile, il pourra se trouver dans l'impossibilité de continuer à assurer le service de sa dette extérieure, quand bien même les projets pour lesquels il a emprunté seraient essentiellement sains.

Il arrive que le projet procure des gains directs en devises. Tel est le cas des projets de mise en valeur de ressources minérales destinées à l'exportation : peut-être savez-vous que la Banque Mondiale finance actuellement deux projets de ce genre (pour l'extraction du minerai de fer et de manganèse) en Mauritanie et au Gabon. Dans ce cas, et à condition qu'une fraction suffisante des recettes en devises soit mise

en réserve pour assurer le service du prêt étranger, le pays devrait disposer des moyens nécessaires. Or, même lorsqu'un projet permet d'accroître les exportations, il est rarement possible de mettre ainsi en réserve un certain revenu en devises. On ne peut alors dire si un pays sera à même de trouver les devises nécessaires au service de la dette internationale qu'en fonction de l'ensemble de ses recettes de devises.

Certes, un projet peut permettre d'économiser des devises plutôt que d'en acquérir. Dans un cas comme dans l'autre, l'effet en sera tout aussi favorable sur la balance des paiements. Mais à l'expérience, nous sommes devenus quelque peu circonspects à l'égard des projets qui conduisent à des économies d'importations. Bien souvent, le projet lui-même, ou des phases ultérieures d'application, nécessiteront d'importantes sorties de devises. Trop fréquemment aussi, il impliquera certaines formes de subventions ou de protection douanière, dont les industries d'exportation comme les autres secteurs d'activité subiront le contrecoup. Il en résultera peut-être certaines distortions de la structure des investissements et une stagnation des exportations alors que celles-ci constituent, à long terme, l'un des facteurs les plus efficaces du développement économique général d'un pays.

Le volume et les modalités de la dette extérieure en cours constituent évidemment les éléments essentiels pour déterminer si un pays doit assumer de nouveaux engagements internationaux. Ce qui importe, ce n'est pas tant la valeur totale de la dette extérieure que la fraction de cette dette qui est remboursable à une époque déterminée. Si par exemple le pays a assumé une trop forte proportion de dettes à court terme, sous la forme

notamment de crédits à l'exportation offerts par des fournisseurs étrangers de biens d'équipement dont l'amortissement s'étale généralement sur de longues périodes, la charge annuelle des remboursements risque d'augmenter beaucoup plus vite que les recettes en devises, et d'obliger ainsi l'emprunter soit à appliquer de sévères restrictions à l'importation, soit à réviser ses accords d'emprunt, soit, pis encore, à encourir des défauts de paiement. Certains pays de l'Amérique latine ont connu récemment des difficultés de ce genre. Si au contraire les taux d'intérêt sont faibles et les délais de remboursement de longue durée, une dette extérieure, même importante, peut n'imposer qu'une faible charge annuelle qui sera financée par des recettes d'exportation.

Il faut souvent très longtemps pour que les projets de développement soient payants. Lorsqu'ils sont financés par des emprunts à court terme, le remboursement risque d'hypothéquer lourdement le revenu en devises du pays et de le mettre dans une position difficile l'année où, comme c'est pratiquement inévitable, ses recettes d'exportation n'atteindront pas le chiffre prévu. Ces difficultés augmenteront si le projet de longue haleine est financé par l'Etat et ne procure pas de recettes directes, car c'est au budget qu'incombera alors directement le service de la dette.

Enfin, il faut reconnaître que la politique suivie par le gouvernement exerce une influence vraiment majeure sur la balance des paiements du pays et, partant, sur ses possibilités d'assumer de nouvelles dettes extérieures. La capacité d'endettement dépendra dans une large mesure de l'efficacité avec laquelle les pouvoirs publics auront réussi à

maintenir la demande globale de devises dans les limites fixées par les exportations, les recettes invisibles et le produit des prêts étrangers ou de l'aide extérieure. Cela leur sera très difficile s'ils adoptent une politique inflationniste, car celle-ci tend à stimuler les importations et à freiner les exportations, provoquant ainsi l'affaiblissement des réserves ou l'accumulation d'obligations extérieures à court terme. Ils rencontreront aussi des difficultés s'ils ne sont pas prêts à envisager les ajustements, désagréables certes, que requiert parfois la diminution soudaine des recettes d'exportation, éventualité à laquelle la plupart des pays producteurs de matières premières n'ont dû que trop souvent faire face au cours des dernières années.

Les pays en voie de développement pourraient avoir la tentation bien naturelle de considérer que la capacité d'endettement est une question qui ne regarde que le bailleur de fonds éventuel. D'ailleurs celui-ci lui accordera une grande attention car il tient à récupérer finalement son argent. Mais la question intéresse aussi l'emprunteur. Ce serait en effet aller à l'encontre des lois économiques que d'emprunter pour exécuter un projet si la charge imposée par le remboursement de la dette extérieure doit conduire l'ensemble du pays à la ruine.

II. En supposant qu'un pays puisse se permettre d'emprunter, ou même qu'il puisse disposer de fonds sans qu'il lui en coûte rien, à quels investissements devra-t-il affecter l'aide extérieure ? La difficulté

consiste à déterminer quels sont, parmi les projets d'un pays en voie de développement, ceux qui méritent de recevoir la priorité, le mot "priorité" signifiant ici non pas qu'un projet peut commander l'expansion générale d'un pays (dangereuse illusion), mais qu'il mérite d'être placé au premier rang, parmi d'autres qui ont été retenus en raison de leur importance dans divers domaines. Le principe directeur devra être d'orienter les investissements vers les projets qui apporteront la contribution la plus large possible à l'expansion économique du pays.

Théoriquement, cette méthode implique une évaluation détaillée des possibilités d'investissement dans chaque secteur de l'économie, travail long et onéreux mais qui, nous le verrons, présente un tel intérêt que la dépense est justifiée. Heureusement, il sera généralement inutile d'attendre les conclusions d'une aussi vaste étude pour s'attaquer aux projets les plus urgents. Il suffira, pour les découvrir, de procéder à un examen suffisamment méthodique des principaux besoins de chaque secteur économique.

Dans un tel examen, une division tendra naturellement à s'établir entre l'infrastructure d'une part, et les besoins de l'industrie et de l'agriculture de l'autre.

Par infrastructure, j'entends notamment les routes, les chemins de fer, les centrales d'électricité et les réseaux de transport de courant, et les ports. Les autres secteurs d'activité ne peuvent se développer sans cette infrastructure qui dépend souvent du gouvernement lui-même. Lorsqu'un service essentiel ne parvient pas à satisfaire les demandes qui le pressent, les conséquences en sont graves, et des investissements s'imposent de toute urgence. Des goulots d'étranglement apparaissent ou

menacent de se produire. Je vais vous donner deux exemples, qui ont tous deux nécessité l'été dernier l'octroi d'un prêt par la Banque Mondiale. A Medellin, en Colombie, la demande d'électricité a progressé à une cadence annuelle de 11% environ, et a excédé la puissance totale installée. Il a fallu rationner la consommation domestique comme celle de l'industrie, de sorte que les entreprises qui voulaient maintenir leur production ont dû installer leurs propres groupes électrogènes. Nous avons prêté un montant de 22 millions de dollars aux services locaux d'électricité pour financer le coût de construction en devises d'une centrale hydro-électrique qui permettra de couvrir les besoins d'électricité de Medellin pendant les sept prochaines années. En Inde, le fleuve Hoogly s'ensable à tel point que les navires de jauge normale ont de plus en plus de difficultés à entrer dans le port de Calcutta et que le commerce d'importation et d'exportation de l'une des principales régions industrielles de l'Inde s'en trouve considérablement gêné. En vertu d'un accord que nous avons signé en août dernier, un prêt de 21 millions de dollars financera l'achat de dragues pour dégager le fleuve et le coût d'une étude hydraulique en vue d'apporter une solution durable aux difficultés de la navigation.

Ces cas étaient relativement faciles à résoudre. Mais il est plus difficile de savoir si un investissement destiné aux services essentiels mérite une priorité absolue lorsque son but est en principe de stimuler les investissements dans d'autres secteurs. On ne peut dire a priori qu'une nouvelle route ou de nouvelles sources d'énergie favoriseront à coup sûr le développement de l'agriculture ou de l'industrie locales. Parfois de tels investissements n'ont manifestement pas pu trouver leur

justification. Ces expériences ne devraient pas nous empêcher de financer les projets plus compliqués; elles ne peuvent que nous engager à examiner attentivement leur justification économique.

Dans l'établissement d'un programme d'investissements publics, la difficulté consiste à garder un juste équilibre entre les projets rentables ou directement productifs, et les projets sociaux dont le caractère est hautement souhaitable mais qui ne contribuent pas à accroître directement la production de biens ou de services. La plupart des gouvernements des pays moins favorisés n'ignorent nullement cette triste réalité que leurs ressources ne leur permettent pas d'assurer ces services sociaux qui sont désormais chose courante dans les pays industrialisés. Constatation encore plus pénible, leurs possibilités de financer les programmes d'enseignement les plus urgents, les projets d'adduction d'eau, etc., sont aussi parfois limitées. Et même dans le domaine strictement économique, il importe de répartir raisonnablement les ressources entre les projets qui procureront directement des recettes, comme les installations ferroviaires, portuaires ou les centrales, et les projets, tels que la protection contre les inondations et (parfois) les routes, qui ne procurent pas directement des recettes à l'Etat, bien qu'ils contribuent effectivement à accroître le revenu national. Si on n'accorde pas suffisamment d'attention à cet aspect des projets, le budget ordinaire de l'Etat risque de s'en trouver lourdement obéré.

On s'exposera moins à opérer un mauvais choix parmi les investissements si les pouvoirs publics du pays intéressé ont une idée de l'orientation générale que l'expansion devrait prendre. Aussi, à la Banque

Mondiale, incitons-nous vivement nos gouvernements membres à élaborer avec réalisme des plans ou des programmes de développement qui fourniront, pendant cinq ou dix ans, des directives pour les investissements publics effectués dans leurs pays. Nous sommes prêts, de notre côté, à contribuer par tous les moyens à notre disposition à l'établissement de ces plans, soit en détachant auprès des gouvernements des membres du personnel de la Banque qui les conseilleront sur la mise au point des programmes de développement, soit en recrutant des experts à cette fin, soit encore en organisant des missions d'études qui séjourneront quelques mois dans un pays pour examiner tous les secteurs de l'économie avant d'établir un rapport très complet. La tâche exacte qui incombera à la mission ou au représentant variera selon les cas, mais la méthode employée sera en général identique : pour prendre un exemple typique (je cite les instructions qui avaient été données à une mission envoyée au Nigéria il y a quelques années), il s'agit "d'évaluer les ressources disponibles pour l'expansion future, de passer en revue les possibilités de développement des principaux secteurs de l'économie et de formuler des recommandations au sujet des mesures à prendre dans la pratique, notamment pour l'échelonnement et la coordination des activités à entreprendre". Nous avons ainsi organisé plus de vingt missions, dont six dans les pays africains (le Nigéria, la Somalie, la Libye, le Tanganyika, l'Ouganda et, récemment, le Kenya).

En fin de compte, il appartiendra évidemment aux gouvernements de décider sous quelle forme ils investiront les ressources dont ils disposent. Mais leur tâche se trouvera facilitée par des études de ce genre, à condition qu'elles demeurent strictement pratiques et qu'elles se fondent

d'une part, sur l'évaluation des possibilités globales offertes à l'investissement public (social ou économique) et, d'autre part, sur une juste appréciation des ressources disponibles. Ces études présentent un autre avantage : elles sont généralement publiées, de sorte que non seulement la Banque mais d'autres prêteurs éventuels peuvent se faire une idée assez exacte des plans et des problèmes particuliers au pays. Selon toute vraisemblance, il en résultera une meilleure compréhension de ses besoins et une plus grande sympathie pour sa situation.

Il est moins facile de seconder l'effort de développement du secteur industriel. L'investissement y est, par nature, plus complexe et plus hasardeux : le risque de perte se trouvera accru par des problèmes de vieillissement technique, par les fluctuations des prix des matières premières, et par les difficultés de commercialisation (notamment si le produit doit être compétitif sur les marchés d'exportation). La situation exigera alors une capacité administrative qui est sans doute à la portée des gouvernements, mais dont les entreprises peuvent rarement disposer individuellement. Pour des raisons d'ordre purement pratique, plutôt que par préjugé capitaliste, il semble que les pouvoirs publics auraient intérêt à réserver autant que possible les maigres ressources humaines et financières du pays aux projets essentiels d'infrastructure qui offriront en général peu d'attraits au capital privé. En manifestant clairement leur intention de ne pas entrer en concurrence sur le secteur industriel, les autorités fourniront déjà un encouragement aux sociétés privées capables d'investir. Il convient de noter en passant que l'industrie privée étrangère représente pour le développement une source potentielle de capitaux tout aussi

importante que les gouvernements ou les organismes internationaux qui octroient actuellement leur aide aux pays moins fortunés.

Le problème reste cependant entier pour ce qui est des encouragements à donner aux moyennes et petites entreprises. Celles-ci auront sans doute de grandes difficultés à se procurer des capitaux à long terme, car elles sont généralement de trop faible envergure pour intéresser le bailleur de fonds étranger. En vue de résoudre ce problème, certains pays ont créé des banques nationales de développement, qui obtiennent souvent l'appui de capitaux nationaux ou étrangers. Elles offrent aux pouvoirs publics un moyen commode qui leur permet de procurer des fonds aux petites entreprises sans avoir à se préoccuper de leur gestion, en même temps qu'elles donnent à ces entreprises la possibilité d'obtenir, sur le plan local, les avis et la compréhension nécessaires. La Banque Mondiale a aidé, par ses conseils, à l'établissement de banques de développement dans plusieurs pays et elle a accordé des prêts à certaines d'entre elles pour faciliter leurs opérations.

Les encouragements à donner à l'agriculture constituent peut-être le problème le plus ardu de tous. On trouve évidemment des cas tout simples où les projets existent et offrent de bonnes chances d'utiliser efficacement d'importantes ressources internationales, par exemple les grands travaux hydrauliques, le drainage, l'irrigation, la récupération de terres. On peut attendre de certains de ces projets des recettes qui suffiront à couvrir directement leur financement. Tel est le cas des deux grands projets d'irrigation dont nous facilitons le financement au Soudan. D'autres projets pourront poser des problèmes d'ordre budgétaire au

gouvernement, car ils se feront souvent à l'avantage exclusif des exploitants agricoles, alors que les pouvoirs publics doivent puiser dans les recettes fiscales pour servir les intérêts des emprunts internationaux que les projets auront pu entraîner.

Un autre champ d'action est offert aux prêts agricoles directs par les systèmes de crédit destinés à financer l'achat de matériel agricole (parfois par l'intermédiaire d'une banque de développement agricole) ou l'établissement de coopératives de commercialisation. D'autre part, il va de soi que nombre de projets d'infrastructure exerceront une influence directe et très importante sur l'agriculture, comme par exemple la construction de routes reliant les exploitations aux villes de marché, la distribution d'eau et l'électricité.

Pourtant, l'argent ne permettra jamais, à lui seul, de résoudre les problèmes qui se posent à l'agriculture des pays sous-développés. Les ressources internationales disponibles ne représentent qu'un élément de solution, car le développement agricole dépend plus encore de l'adoption de nouvelles techniques, de travaux de vulgarisation, de réformes du régime foncier, c'est-à-dire d'une véritable révolution dans le comportement social. Tous ces résultats doivent être acquis si l'on veut tirer parti des apports financiers.

Cependant, plus j'observe les régions sous-développées, et l'Afrique en particulier, plus je suis convaincu que les problèmes agricoles constituent la pierre d'achoppement du développement économique. Il est fort à craindre que la facilité relative avec laquelle peuvent être établis de grands projets industriels dans le domaine de l'énergie et des

transports ne nous entraîne à négliger les problèmes propres à l'agriculture. L'immense majorité des Africains tire sa subsistance du sol, et il en sera probablement ainsi pendant toute la présente génération. Le développement agricole est un processus lent et rarement spectaculaire. Mais on voit à certains indices que, sur ce continent, le niveau de vie et la productivité peuvent se modifier de façon surprenante grâce aux efforts des paysans lorsque l'argent est utilisé en combinaison intelligente avec les réformes juridiques ou sociales et lorsque d'autres formes d'aide, comme l'assistance technique, viennent susciter l'enthousiasme des exploitants et leur fournir les connaissances dont ils ont besoin pour tirer vraiment parti de ce que l'argent peut mettre à leur disposition : semences, engrais, irrigation, outils et voies de communication. Pour ma part, j'éprouverais le plus grand scepticisme à l'égard de tout programme de développement destiné à l'Afrique qui ne placerait pas au premier plan la mise en valeur de l'agriculture.

III. Voilà donc les considérations générales qui devraient guider notre décision lorsqu'il s'agit de mettre les ressources internationales disponibles au service du développement économique. Mais comment décider si tel ou tel projet mérite ou non une aide ?

Ici encore, quelques mots d'avertissement ne seront pas inutiles. Je n'ai pas l'intention d'examiner le cas des projets "sociaux", encore que, de toute évidence, leur rôle soit parfois essentiel pour le développement économique (notamment dans l'enseignement et la santé publique), et que

l'A.I D. ne se refuse pas à prendre certains d'entre eux en considération. Les problèmes qu'ils impliquent réclament l'analyse de spécialistes ayant des qualités d'expert que, pour ma part, je ne possède pas. En second lieu, étant donné le temps dont je dispose, je n'examinerai ni les aspects purement techniques ou commerciaux de l'évaluation des projets, ni les difficultés rencontrées pour fixer les conditions financières qui leur seraient appropriées, car toutes ces questions, malgré leur importance, dépassent quelque peu mon propos. Je voudrais souligner toutefois, en passant, que des analyses détaillées de ce genre sont indispensables. A la Banque, nous avons acquis la conviction qu'en pratique ces questions réclament de nous autant d'attention que les caractéristiques économiques générales des projets. En tout état de cause, je me bornerai aujourd'hui à l'étude de ce dernier problème ou, en d'autres termes, à voir dans quelles conditions un projet donné peut apporter au développement économique d'un pays une contribution assez substantielle pour justifier les investissements qu'il implique.

Nous pouvons supposer, en reprenant le début de cette discussion, que le projet intéresse un secteur économique (énergie ou agriculture, par exemple) dont la mise en valeur semble revêtir une importance primordiale. Nous pouvons de même supposer que les ressources internationales à utiliser seront fournies à des conditions qui n'imposeront pas de charges abusives sur la balance des paiements du pays ou sur son budget. Il reste à décider si le projet en question est celui qui répondra le mieux aux besoins du secteur.

En règle générale, cette décision impliquera une étude du marché

entreprise sous une forme ou une autre, mais dont la portée dépendra de la nature du projet. S'il s'agit de développer la production vivrière ou l'extraction du minerai pour l'exportation, il nous faudra sans doute analyser les perspectives de l'offre et de la demande à l'échelle mondiale dans les secteurs intéressés. Ce sera notamment le cas pour le cacao et le café. Au contraire, un projet visant à renforcer la production d'électricité dans un district restreint ne réclame qu'une étude de marché relativement limitée.

En théorie, il est facile de considérer qu'un plan de développement est satisfaisant dès lors que sa rentabilité (directe ou indirecte) est raisonnable par rapport au capital investi. Cette définition ne distingue pas suffisamment entre la rentabilité purement financière et le profit que le pays retirera du projet, d'un point de vue économique général. Par ailleurs, et c'est regrettable, cette définition n'indique pas le taux de rentabilité qu'on doit considérer comme "raisonnable". Dans une économie parfaitement compétitive, telle que l'imaginent les théoriciens classiques, une rentabilité "raisonnable" devrait être d'importance au moins égale au revenu que permettrait d'obtenir tout autre investissement effectué dans des entreprises comparables du même pays. Mais, en pratique, l'économie parfaitement compétitive n'existe ni dans les pays développés, ni ailleurs et il en est souvent ainsi dans des entreprises dites comparables. Les taux d'intérêt risquent en particulier de faire l'objet de manipulations artificielles et de perdre ainsi leur valeur de comparaison. Les projets entrepris dans des secteurs "de base", comme l'énergie, les chemins de fer, l'irrigation, ont en général une position monopolistique qui fait obstacle

à toute tentative de comparaison avec d'autres projets. Ici, il faudra sans doute renoncer à prendre pour termes de comparaison des projets analogues effectués dans le même pays, mais voir quels ont été le coût et la rentabilité de plans similaires dans d'autres régions.

De même, il n'est pas facile d'évaluer la rentabilité de projets qui ne procurent pas de revenus monétaires, encore que la technique de cette analyse soit assez bien connue. Dans la plupart des cas, il s'agit en effet de calculer la valeur de ce qu'on pourrait appeler une série de pronostics "éclairés". C'est ainsi par exemple que pour juger s'il convient de reconstruire une route, on procèdera à des calculs concernant successivement la réduction d'usure des pneumatiques, l'économie de consommation du carburant, la moins grande fréquence des réparations, etc., de façon à obtenir un chiffre global qui indiquerait la réduction moyenne prévue pour le coût de la tonne-kilomètre.

Cette évaluation économique ne doit pas laisser de côté les revenus indirects tirés du projet. Ceux-ci peuvent jouer un rôle décisif dans le choix entre deux solutions exigeant à peu près les mêmes investissements et offrant des taux de rentabilité directement analogues en biens et services. Il se peut fort bien que l'un des deux projets se qualifie nettement par rapport à l'autre, non parce qu'il fournira le meilleur revenu financier mesurable, mais parce qu'il fera un meilleur usage des ressources inemployées, humaines ou matérielles, ou parce qu'il sera de nature à encourager une nouvelle phase du développement. Le choix devra par exemple se faire entre deux tracés possibles pour une ligne de chemins de fer, qui réclameront tous deux les mêmes frais de construction et assureront des

conditions également satisfaisantes d'expédition entre les deux terminus, mais dont l'un seulement traversera un territoire dont le développement pourra se trouver stimulé par l'amélioration des voies de communication. Un choix analogue pourra se présenter entre deux projets d'usines, dont l'une serait exploitée de façon quasiment autonome, tandis que l'autre pourrait stimuler l'expansion d'industries connexes qui l'alimenteraient en matières premières ou au contraire assureraient la finition de ses produits.

Il faut tenir compte des coûts indirects aussi bien que de la rentabilité indirecte. Le succès de nombreux projets dépendra des investissements complémentaires entrepris ailleurs. Cette interdépendance est manifeste dans certains cas, celui des mines de fer de Mauritanie, par exemple, où ce qui coûte le plus cher n'est pas d'extraire le minerai, mais de construire une voie ferrée qui amènera ce minerai à travers 600 km de désert jusqu'à la mer. C'est aussi le cas, moins évident mais tout aussi important, d'une usine nouvelle dont l'exploitation imposera au réseau local d'électricité une charge qui ne pourra être satisfaite que par l'installation d'une puissance supplémentaire.

En évaluant les mérites économiques d'un projet donné, on doit aussi chercher à discerner les effets qu'il pourra avoir sur la balance des paiements du pays. Au compte créditeur, pourra-t-il fournir une impulsion aux exportations, ou offrir une source de remplacement aux biens et services qu'il faut actuellement importer ? Au compte débiteur, quelle sera sa charge probable sur la balance des paiements, compte tenu du coût des pièces de rechange, des matières premières et, bien entendu, du

service de la dette ? Il ne faudra pas non plus oublier les effets in-
directs qui pourront en résulter pour la balance des paiements. Pour ne
citer qu'un seul exemple, l'emploi d'une main-d'oeuvre rurale importante
à la construction de routes pourra fort bien obliger le pays à accroître
ses importations de denrées alimentaires.

Il n'est pas rare que la sélection d'un projet implique un
choix entre deux solutions fondamentalement différentes d'un même pro-
blème. C'est notamment le cas des grands projets de transports, où il
peut être nécessaire de peser les avantages d'une nouvelle route en regard
de ceux d'une nouvelle voie ferrée, ou encore d'un plan d'aménagement flu-
vial. Un choix analogue pourra être nécessaire entre différentes méthodes
de production d'énergie. C'est un problème courant que d'avoir à choisir
entre un projet hydro-électrique (qui entraîne en général de fortes mises
de fonds, mais de faibles dépenses d'exploitation) et un projet de centrale
thermique (moins coûteuse à construire, mais dont la marche est plus
onéreuse).

Il importe aussi de voir si le succès du projet implique sa
protection contre la concurrence. D'ordinaire, cette protection pourra
être assurée sous forme de tarifs ou de contingentements destinés à limiter
les possibilités d'action des fournisseurs étrangers de biens et services.
A l'intérieur du pays, cette protection peut prendre la forme d'une taxa-
tion discriminatoire, d'une entrave à la libre concurrence (comme, par
exemple, l'octroi d'un régime de faveur aux transports ferroviaires par
rapport aux transports routiers). La protection peut parfois se justifier,
notamment dans le cas souvent invoqué des "industries naissantes" qui ont

besoin d'être aidées pendant un certain temps avant de pouvoir être considérées comme établies. Toutefois, il nous faut admettre que c'est là une distorsion ou une diversion des forces économiques naturelles. Employées à l'excès, ou mal à propos, ces pratiques peuvent nous entraîner à détourner des ressources pourtant rares et sollicitées par d'utiles projets de développement au profit d'entreprises dénuées de réelle justification économique.

Enfin, on ne saurait passer sous silence les règlements qui risquent de faire obstacle au lancement et au déroulement économique d'un projet. Il s'agit surtout et le plus souvent de contrôles monopolistiques exercés par exemple sur les services publics, et nous savons quelles perturbations ils peuvent entraîner lorsqu'ils limitent abusivement le libre jeu des prix ou lorsqu'ils contrecarrent l'indépendance de la gestion. J'aurais mauvaise grâce à donner des exemples spécifiques, mais je pense notamment à ces tarifs ferroviaires imposés par les pouvoirs publics et qui obligent à transporter à perte certaines marchandises privilégiées, à ces plafonds fixés aux tarifs d'électricité, qui interdisent toute affectation des bénéfices à des travaux d'expansion, à ces nominations aux postes de haute direction, qui se font en fonction de critères politiques plutôt que sur la base de connaissances techniques. Je me permettrai d'ajouter que les excès de ce genre sont tout aussi fréquents dans les pays industrialisés que dans les régions sous-développées.

Pour ceux qui ont la charge d'encourager le développement de leur pays, les considérations qui précèdent se présentent sans doute comme une liste impressionnante d'exigences diverses. Mais rien ne sert de chercher à éluder les réalités économiques. Je crois fermement que toutes ces conditions sont indispensables : vous ne pouvez faire bon usage des ressources internationales si vous n'êtes pas sûr que votre pays peut se permettre d'emprunter, si vous n'avez pas la certitude que le secteur économique dans lequel vous voulez investir est assez important pour mériter votre attention immédiate, si vous n'avez pas acquis la conviction que le projet choisi sera assez rentable pour justifier son prix de revient. Il ne faut pas gaspiller les ressources rares, et le capital, quelle que soit son origine, est une ressource rare. A cet égard, une très lourde responsabilité incombe aux organisations internationales, qu'elles vivent de fonds d'emprunt ou de contributions volontaires.

En revanche, je dois reconnaître que certains pays, en Afrique et ailleurs, risquent de se trouver mal armés pour entreprendre l'évaluation des possibilités de développement de leur territoire. J'ai bon espoir qu'aucun pays ne se trouvera de ce fait dans l'impossibilité de lancer ses plans de développement. Nombreux sont ceux qui, notamment à la Banque Mondiale, sont à la fois capables et désireux d'aider les pays en voie de développement dans cette tâche. Il ne faudra pas hésiter à faire appel à eux en cas de besoin.

THE ECONOMIC USE OF INTERNATIONAL RESOURCES
IN FINANCING DEVELOPMENT PROJECTS

By Leonard Rist
World Bank Special Representative for Africa

December 13, 1961

THE ECONOMIC USE OF INTERNATIONAL RESOURCES
IN FINANCING DEVELOPMENT PROJECTS*

By Leonard Rist

World Bank Special Representative for Africa

I think I should begin with a warning: I am going to confine myself to a discussion of the appraisal techniques which we at the World Bank have, over the past fifteen years, learned to apply in our own lending for development projects. However, I believe that most of these techniques are applicable in virtually all development financing; certainly we have found they need very little modification to act as a satisfactory guide for putting the "soft loan" resources of the International Development Association to work. Three questions are involved: How much can a country borrow from abroad; what sector should it preferably invest in; and how can individual projects be justified, mainly from an economic standpoint.

I. The first question we have to consider is whether a particular country should borrow abroad at all. This is not quite the same question as whether a lender (or donor) should make money available to the country. We should be unrealistic if we failed to recognize that loans and grants are sometimes given for reasons which may not be exclusively economic. More respectably, however, they may have to be rationed out by the country or institution offering help, simply because the resources available are not adequate to meet all the demands upon them. The World Bank has not been subject to this limitation, but to our great regret,

*A paper presented by Mr. Rist at a seminar on "Problems of Financing National and Multi-National Development Projects in Africa," held under the auspices of the Treasury Department, Government of Liberia, on December 13, 1961, in Monrovia.

we have had to accept some such limitation on the amount of aid the International Development Association can offer to one or two of its largest underdeveloped member countries for the simple reason that its funds are provided by capital subscriptions of its participants and not as in the Bank both by subscriptions and by borrowings. But there are purely economic considerations as well, which must limit the amount which the developing country itself can prudently borrow abroad. And while not easy to define precisely, these limitations can be assessed in a reasonably detached way; the same approach used by the Bank, for instance, can be used by the borrowing country itself.

We sum up this assessment of the amount a country can safely borrow as its creditworthiness. The French would say "borrowing capacity." A country's creditworthiness, I would emphasize, is not at all the same thing as its trustworthiness. Several countries in whose probity the Bank has complete trust are, unfortunately, also countries which are hardly creditworthy at all. What we try to measure as creditworthiness -- a far from attractive word incidentally -- is the capacity of a country to service foreign borrowing without putting an undue strain upon either its internal finances or its balance of payments. The question is roughly how much a country can borrow abroad on conventional terms without serious risk of thereby involving itself in financial difficulties later on. Once the limits of creditworthiness are reached, further development assistance from abroad can safely be taken only in the form of soft loans (such as our IDA credits, which bear little or no interest, and are repayable over a very long period) or outright grants. And sadly, but not surprisingly, finance in this form is in general less freely available than conventional loans.

This question of creditworthiness comes up both when we look at the proposed development project, and when we examine the general economic situation of the borrowing

country. It is not enough that a project be sound in itself, making it possible to accumulate local funds for repaying the money borrowed or that the economy at large may be expected to grow at such a pace that its savings may increase. Most international loans must be repaid in foreign exchange. If a borrowing country runs into foreign exchange difficulties, it may be unable to keep up service of any part of its external debt, even though the projects for which it borrowed were essentially sound.

Sometimes, a project may itself earn foreign exchange directly. Examples might be projects for developing mineral resources for export: as you may know, the World Bank is currently financing two such projects (for the mining of iron and manganese ore) in Mauritania and Gabon. Here, provided sufficient foreign exchange earnings are set aside to service the international loan, the availability of the means to service foreign debts should be assured. But more often, even when a project leads to increased exports, it is not possible to set aside specific foreign exchange income in this way. When this is so, one can assess a country's ability to find the foreign exchange needed to service international debt only in terms of its foreign exchange earnings as a whole.

Of course, a project may save foreign exchange, rather than earn it. The favorable effect on the balance of payments is the same in either case. But experience has made us a bit suspicious of import saving projects. Quite often the project itself or its continued operation require substantial foreign exchange expenses. Too often also they entail some kind of subsidy or tariff protection, the cost of which falls on export industries, along with the rest of the economy. This can have distorting effects on the pattern of a country's investment, and inhibit the growth of exports, which in the long run are likely to provide one of the most effective stimulus for general economic development within a country.

The size and terms of existing external debt are obviously central in determining whether a country should undertake further

foreign borrowing. What matters is not so much the total amount of foreign debt as the proportion of it which is repayable at any given period. For instance, if too much short-term debt is taken on, perhaps in the form of export credits offered by foreign suppliers of capital goods, which are normally depreciated over long periods, the annual burden of repayments may increase much more quickly than foreign exchange income, forcing the borrower to impose severe import restrictions. This may lead to debt rearrangements or worse, to defaults. Some of the Latin American countries have run into this kind of trouble recently. On the other hand, if interest rates are low, and repayment schedules long, a large external debt can be carried with only a small annual charge to be met out of export earnings.

Very often, development projects take a long time to pay for themselves. If they are financed by short-term borrowings, repayment can place serious strains on a country's foreign exchange income, and damage its ability to meet the difficulties of those almost inevitable years when export earnings are lower than expected. The difficulties will be increased if the slow-maturing project is government-financed and not directly revenue-producing, since the burden of debt service will fall directly on the government budget.

Finally, one must recognize that government policies do have a major influence on a country's balance of payments, and thus on its ability to carry additional external debt. Creditworthiness depends importantly upon the success with which a government keeps the over-all demand for foreign exchange within the limits set by exports, invisible earnings and the proceeds of external borrowing and foreign aid. It will find this very difficult, if it adopts inflationary policies, since these tend to stimulate imports, to hamper exports, and so to encourage running-down of reserves or accumulation of short-term foreign obligations. It will find this difficult, too, unless it is prepared to face the unpleasant adjustments which are sometimes made necessary by a sudden fall in export earnings -- a circumstance with which most of the primary producing countries have become only too familiar in recent years.

It would be only natural for the developing countries to regard the matter of creditworthiness as of concern only to the potential lender. Certainly the lender will give it a great deal of attention: he wants to get his money back eventually. But it concerns the borrower as well. It cannot be economic to borrow abroad for any project, if the strain of repayment is going to involve the entire country in financial disaster.

* * * * *

II. Assuming that a country can afford to borrow, or even that the funds are available at no cost, what should foreign assistance be invested in? The difficulty is to decide which among the projects which may be available in a developing country deserve priority -- "priority" in this sense implying not that any one project can hold the key to national development (a dangerous delusion) but that a selected project deserves a place in the front rank, along with others chosen for their importance in different fields. The guiding rule must be to direct investment into those projects which will make the greatest possible contribution to the economic growth of the country concerned.

Ideally, this approach calls for a detailed appraisal of investment possibilities in each sector of a country's economy -- a slow and expensive business. As I shall argue later, an appraisal of this kind is of such value that the expense is justified. But fortunately, one usually need not wait for the conclusion of such a comprehensive analysis before making a start on the most urgent projects. All that is needed to bring these to light is a reasonably methodic examination of the broad requirements of each economic sector.

Such an examination tends to divide itself naturally between basic services on the one hand, and the needs of industry and agriculture on the other.

By basic services, I mean such things as roads, railways, electric power generating stations and transmission networks and ports. Without these services, which are often the re-

sponsibility of the government itself, other sectors of the economy cannot grow. If one basic service is failing to meet the demands upon it, the effects will be serious, and the urgent need for investment will usually be obvious. Bottlenecks arise or threaten to arise. Let me give two examples, both of which resulted this summer in a loan being made by the World Bank. In Colombia, the demand for electric power in the city of Medellin has been growing at the rate of about 11% a year, and has outstripped generating capacity. In consequence, power rationing has been in force for both private householders and industry, and manufacturers who want to keep their factories running have had to install their own power plant. We lent the local power authority \$22 million to meet the foreign exchange cost of a hydroelectric scheme which should cover Medellin's power needs for the next seven years. In India, the Hooghly River has been silting up so badly that normal-sized seagoing ships have found it increasingly difficult to reach the Port of Calcutta, and the import and export trade of India's most important industrial region has been seriously handicapped. A loan of \$21 million we signed in August will finance the purchase of dredges to keep the river clear, as well as a hydraulic study aimed at finding a long-term solution to the navigational difficulties.

Those were comparatively easy cases. It is less easy, however, to know if an investment in basic services deserves high priority when it is proposed as a means of stimulating investment elsewhere. One cannot assume that a new road, or new sources of power, will inevitably foster local agriculture or industry. Sometimes investments of this kind have conspicuously failed to justify themselves. This should keep us from financing the more difficult cases. It only tends to recommend serious probing in their economic justification.

A difficult problem in drawing up a public investment program is to keep a proper balance between economic, or directly productive, projects and social projects which, though highly desirable, make no direct contribution to increased production of goods or services. Most governments of poorer countries are aware of the unpleasant fact

that their resources are inadequate to provide the public welfare services now becoming commonplace among the industrialized nations. It is even more painful to recognize that their ability to finance urgently-needed education programs, water-supply projects and the like may also be limited. Even in the straightforward economic field, it is necessary to maintain a reasonable division of resources between directly revenue-earning projects, such as railways, harbors and power stations, and projects, such as flood control works and (sometimes) roads which, while they do add to national income, do not earn revenues directly for the government. If too little attention is given to the revenue-earning aspect of projects, a heavy strain may be placed on the government's current budget.

The risk of making the wrong investment choice is much reduced if the government concerned has a general idea of the way in which it expects the country to develop. For this reason, we at the World Bank strongly encourage our member governments to draw up development plans or programs, realistically based, which will provide guidelines for public investment in their countries over a period of five to ten years. We ourselves stand ready to give what help we can in drawing up these plans, by lending staff members of the Bank to governments to advise on development programming, by recruiting outside experts to serve in the same role, or by organizing survey missions which will spend a few months in a country examining all sectors of its economy before preparing a comprehensive report. The precise task assigned to the mission or representative varies from one country to another, but the general approach is usually the same: to quote from a representative example (the instructions given to a mission we sent to Nigeria some years ago) it is "to assess the resources available for future development, to study the possibilities for development in the major sectors of the economy and to make recommendations for practical steps to be taken, including the timing and coordination of developmental activities." So far we have organized more than twenty such missions, including six to African countries (Nigeria, Somalia, Libya, Tanganyika, Uganda and now Kenya).

Ultimately, of course, it must rest with the governments concerned to decide how they will invest the resources at their disposal. But their task can be made very much easier with the help of severely practical surveys of this kind, based on the one hand on an appraisal of opportunities over the whole field for government investment -- social as well as economic -- and on the other, on a realistic assessment of the resources available. The surveys have a further advantage. They are usually published. This means that not only the Bank but also other potential lenders are able to acquire an informed view of a country's plans and problems; the consequence is likely to be a better and more sympathetic understanding of its needs.

It is less easy to assist development in the industrial sector. Industrial investment is inherently more complex and risky: problems of technical obsolescence, of fluctuations in prices of raw materials, and of marketing (particularly if the product has to compete in export markets) increase the chances of loss, and demand managerial ability of a kind which, if available within the government, can rarely be spared for supervision of a single enterprise. For severely practical reasons, rather than those of capitalist prejudice, it seems that wherever possible, governments should reserve their scarce human and financial resources for investment in those essential basic projects to which private capital is unlikely to be attracted. A clear indication that the government does not intend to compete in the industrial field is in itself likely to act as an inducement to investment by privately owned companies. Here, incidentally it is worth noting that foreign private industry is potentially just as important a source of development capital as any government or international agency now lending to the poorer countries.

This leaves unsolved, however, the problem of encouraging medium-sized or small businesses. These may well encounter great difficulty in raising long-term capital, as they are normally too small to interest the overseas investor. One possible answer, we have found, lies in the establishment of national development banks, which often attract the support of both domestic and foreign investors, which offer a suitable means for the government to provide funds for small industry

without becoming involved in its management, and which can in turn bring to the problems of the small businessman the local and detailed knowledge and understanding that are needed in this field. The World Bank has given advice in setting up development banks in many countries and has made loans to support the work of a number of them.

The encouragement of agriculture is perhaps most difficult of all. There are, of course, straightforward occasions when projects exist that can be expected to make good use of large amounts of international resources -- for instance, major schemes for flood control, drainage, irrigation or land reclamation. Some of these schemes can be expected to pay for themselves directly out of their own revenues. This is the case with two big irrigation schemes which we are helping to finance in the Sudan. Other projects may set budgetary problems for the government, since their benefits tend often to flow only to the farmer, leaving it to the government to service any international borrowings involved out of its general tax revenues.

Further scope for direct agricultural lending may be found in credit schemes to help the cultivator buy implements (perhaps through the medium of an agricultural development bank) or in the finance of marketing cooperatives. And of course, many projects for basic services have a direct and very great impact on agriculture -- in particular, the provision of farm-to-market roads, water supplies and electricity.

But it is clear that money alone will never solve the agricultural problems of the underdeveloped countries. The availability of international funds is quite obviously only one factor: agricultural development depends much more on the adoption of new techniques, on extension work, on the reform of land tenure, on a whole revolution in social attitudes. All of these are needed before much money can be put to good use.

Nevertheless, the more I see of the underdeveloped world, and of Africa in particular, the more I am convinced that the most important challenge to all those concerned with economic development there lies in agriculture. There is a very real

danger that the comparative ease with which large industrial power and transportation projects can be formulated may lead us to neglect the problems of agriculture. Yet the vast majority of Africans earn their living from the soil, and this is likely to be so throughout our lifetimes. Agricultural development is a slow business, and seldom spectacular. But there is evidence on this continent that quite startling changes in living standards and productivity can be achieved by the ordinary farmer when money is put to work in intelligently-directed combination with legal or social reform, and with the provision of technical and other help designed to arouse the cultivator's enthusiasm and to provide him with the knowledge he needs to make good use of the seeds, fertilizer, water supplies, tools and communications that money can buy. I personally should be very sceptical of any development plan for an African country which did not put primary emphasis on the improvement of agriculture.

* * * * *

III. So much for the general considerations that should influence us in deciding how to put available international resources to work in support of economic development. But how are we to decide whether a particular project deserves support?

Here again I must give a warning. I am not going to discuss the choice of social projects, although I am well aware that these -- particularly in the fields of education and public health -- can play an essential part in economic development and although IDA is not adverse to considering some of them, their problems call for assessment by persons having an expertise that I, for one, do not possess. And because my time is short, I am not going to consider the purely technical or commercial assessment of projects, or the difficulties of arranging appropriate financing terms for them, since all of these matters, although extremely important, fall somewhat outside my brief for today. I would, however, like to emphasize in passing that this kind of detailed investigation is indispensable. We find at the

Bank that in practice we must spend no less time in considering these matters than we do in studying the general economic aspects of projects. Today, though, I want to concentrate on the latter problem -- the question, that is, of whether a particular project will make a large enough contribution to the country's economic development to justify the investment it will require.

We can assume, following our earlier discussion, that the project belongs to an economic sector (say, power or agriculture) whose development is believed to be of the first importance. We can assume, too, that the international resources to be employed will be made available on terms which will not put an undue strain on the country's balance of payments or its budget. The task which remains is to decide whether a particular project will best meet the needs of the sector concerned.

This decision will normally involve some sort of market study, the extent of which will depend on the kind of project being considered. Plans to grow crops or to mine ores for export may require that we analyze demand and supply prospects on a world-wide scale for the commodity concerned. This would obviously be true of cocoa or coffee-growing projects. On the other hand, a project to expand power supplies to a small area should require only a comparatively limited market study.

Theoretically, it is easy to define a satisfactory development project as one which earns (directly or indirectly) a reasonable return on the capital invested in it. This definition does not distinguish very well between purely financial returns and overall economic returns to the country. Nor, unfortunately, does this definition specify what rate of return is to be considered "reasonable." In the perfectly competitive economy of classical economics, a reasonable return would have to be at least as great as could be obtained by investing in comparable enterprises in the same country. But the perfectly competitive economy does not exist, either in the developed or the underdeveloped world, nor sometimes do comparable enterprises. Rates of interest, in particular, may be artificially manipulated, thus losing their value as a measure. Projects in the "basic" sector,

such as power systems, railways, and irrigation schemes, generally have a monopoly position which makes it difficult to compare them with any others. Here assessment may have to be based on comparison not with alternatives within the country, but with costs and returns for similar schemes elsewhere.

Returns on projects which are not revenue-earning are also difficult to work out, although the techniques involved are fairly well known. For the most part, they involve calculating the value of what one might describe as a succession of detailed and informed guesses. A common example would be the method used to assess the value of rebuilding an existing road, where a series of calculations about reduced tire wear, lower fuel consumption, fewer repairs and so on is reduced to an overall figure showing the expected average reduction in costs per ton-mile.

An economic appraisal of this kind must not leave out the indirect returns provided by a project. These may be of crucial importance in choosing between two projects, each of which costs about the same amount and provides a similar direct return in goods or services. One of these projects may well establish itself as clearly the best choice, not because it provides a measurably higher financial return, but because it makes better use of idle resources, human or material, or because it is likely to encourage further development. An example might be a choice between two possible routes for a railway, both costing about the same to build, both providing satisfactory shipment for goods being sent from one end of the line to the other, but only one crossing territory where economic development was likely to be stimulated by the improvement of communications. A similar situation might arise between two factory projects, one of which would operate very much on its own, while the other could be expected to stimulate the growth of related firms, serving it with raw materials or providing final processing for its products.

Account must be taken of indirect costs, as well as indirect returns. Many projects depend for their success on additional investment being undertaken elsewhere. This is obvious in some cases -- for instance in the iron mining operation in Mauritania, where the chief expense is not that of excavating the ore, but of building a railroad to carry it across 400 miles of desert to the sea. It is less evident, but still important, where a new factory will put a strain on local electricity supplies which can be met only by installing additional generating equipment.

Another important question in considering the economic merits of a particular project is the effect which it is likely to have on the country's balance of payments. On the credit side, will it generate increased exports, or provide an alternative source of goods or services which must at present be imported? On the debit side, how much is it likely to burden the balance of payments with the cost of spare parts, raw materials and, of course, debt service? One must not overlook the possibility of important indirect effects on the balance of payments as well. To mention only one example, the use of a large number of agricultural workers on a road building project may well make it necessary to increase imports of food.

Quite often, the selection of a project may involve a choice between two fundamentally different solutions to the same problem. This happens particularly with large transportation projects, when it may be necessary to weigh the advantages of a new road against those of a new railway, and both in turn against a project for improvement of river navigation. A similar choice may be needed between different ways of producing energy. A familiar problem is that of choosing between a hydroelectric project (which usually has a high capital cost, but low running costs) and a thermoelectric plant (which is cheaper to build, but more expensive to run).

Yet another point of importance is whether the project's success is dependent on protection against competition. Commonly this protection may be given in the form

of tariffs or quotas limiting the opportunities given to foreign suppliers of goods or services: within the country, it may be given by discriminatory taxation, by limiting the freedom of the competitor (perhaps to favor rail transport at the expense of the road user). Protection can on occasion be justified, particularly in the familiar case of the "infant industry" which needs to be given some help for a limited period while it establishes itself. But we should recognize that its use represents a distortion or diversion of natural economic forces. Used to excess, or in the wrong situation, it can mislead us into diverting scarce resources away from useful development projects into schemes which have no real economic justification.

Finally, one cannot leave out of account any regulations which may make it difficult to execute and operate a project economically. These are most often of importance in the case of regulated monopolies such as public utilities, and in our experience may cause trouble when they unduly limit pricing policies or interfere with independent management. It would be invidious for me to give specific examples here, but the sort of thing I have in mind is a government-imposed railway fare structure that requires that a favored type of product be carried at a loss, an imposed ceiling on power rates that make it impossible to set aside profits for future expansion, or the appointment of persons to top management positions on the basis of political acceptability rather than expert knowledge. I should add that abuses of this kind are just as prevalent in the developed countries as in the underdeveloped world.

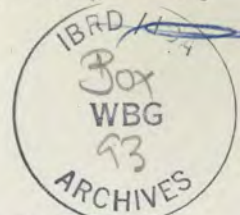
* * * * *

For those with the responsibility of trying to encourage the development of their countries, the foregoing may seem a rather daunting list of requirements. But it is no good trying to hide from economic facts. I believe that all these conditions are indispensable -- you cannot make satisfactory use of international resources unless you are certain that your country can afford to borrow, unless you know that the sector

of the economy in which you want to invest is sufficiently important to deserve your attention at this stage, unless you have made sure that the particular project you select will provide an economic return justifying its cost. Scarce resources cannot be wasted, and capital, where it comes from, is a scarce resource. And in this respect international organizations whether they live on borrowed funds or on voluntary contributions have in this respect very heavy responsibilities.

On the other hand, I do recognize that some countries, in Africa, and elsewhere, may feel themselves ill-equipped to tackle the assessment of development possibilities in their territories. I trust that no country will on that account feel unable to embark on development projects. There are many people, including the World Bank, who are both qualified and anxious to help the developing countries in this task. In case of need their assistance should be requested.

Houma December 13, 1961



THE ECONOMIC USE OF INTERNATIONAL RESOURCES IN FINANCING DEVELOPMENT PROJECTS

I think I should begin with a warning: I am going to confine myself to a discussion of the appraisal techniques which we at the World Bank have, over the past fifteen years, learned to apply in our own lending for development projects. However, I believe that most of these techniques are applicable in virtually all development financing; certainly we have found they need very little modification to act as a satisfactory guide for putting the "soft loan" resources of the International Development Association to work. Three questions are involved: How much can a country borrow from abroad; what sector should it preferably invest in; and how can individual projects be justified, mainly from an economic standpoint.

I. The first question we have to consider is whether a particular country should borrow abroad at all. This is not quite the same question as whether a lender (or donor) should make money available to the country. We should be unrealistic if we failed to recognize that loans and grants are sometimes given for reasons which may not be exclusively economic. More respectably, however, they may have to be rationed out by the country or institution offering help, simply because the resources available are not adequate to meet all the demands upon them. The World Bank has not been subject to this limitation, but to our great regret, we have had to accept some such limitation on the amount of aid the International Development Association can offer to one or two of its largest underdeveloped member countries for the simple reason that its funds are provided by capital subscriptions of its participants and not as in the Bank both by subscriptions and by borrowings. But there are purely economic considerations as well, which must limit the amount which the developing country itself can prudently borrow abroad. And while not easy to define precisely, these limitations can be assessed in a reasonably detached way; the same approach used by the Bank, for instance, can be used by the borrowing country itself.

We sum up this assessment of the amount a country can safely borrow as its creditworthiness. The French would say "borrowing capacity". A country's creditworthiness, I would emphasize, is not at all the same thing as its trustworthiness. Several countries in whose probity the Bank has complete trust are, unfortunately, also countries which are hardly creditworthy at all. What we try to measure as creditworthiness -- a far from attractive word incidentally -- is the capacity of a country to service foreign borrowing without putting an undue strain upon either its internal finances or its balance of payments. The question is roughly how much a country can borrow abroad on conventional terms without serious risk of thereby involving itself in financial difficulties later on. Once the limits of creditworthiness are reached, further development assistance from abroad can safely be taken only in the form of soft loans (such as our IDA credits, which bear little or no interest, and are repayable over a very long period) or outright grants. And sadly, but not surprisingly, finance in this form is in general less freely available than conventional loans.

This question of creditworthiness comes up both when we look at the proposed development project, and when we examine the general economic situation of the borrowing country. It is not enough that a project be sound in itself, making it possible to accumulate local funds for repaying the money borrowed or that the economy at large may be expected to grow at such a pace that its savings may increase. Most international loans must be repaid in foreign exchange. If a borrowing country runs into foreign exchange difficulties, it may be unable to keep up service of any part of its external debt, even though the projects for which it borrowed were essentially sound.

Sometimes, a project may itself earn foreign exchange directly. Examples might be projects for developing mineral resources for export: as you may know, the World Bank is currently financing two such projects (for the mining of iron and manganese ore) in Mauritania and Gabon. Here, provided sufficient foreign exchange earnings are set aside to service the international loan, the availability of the means to service foreign debts should be assured. But more often, even when a project leads to increased exports, it is not possible to set aside specific foreign exchange income in this way. When this is so, one can assess a country's ability to find the foreign exchange needed to service international debt only in terms of its foreign exchange earnings as a whole.

Of course, a project may save foreign exchange, rather than earn it. The favorable effect on the balance of payments is the same in either case. But experience has made us a bit suspicious of import saving projects. Quite often the project itself or its continued operation require substantial foreign exchange expenses. Too often also they entail some kind of subsidy or tariff protection, the cost of which falls on export industries, along with the rest of the economy. This can have distorting effects on the pattern of a country's investment, and inhibit the growth of exports, which in the long run are likely to provide one of the most effective stimulus for general economic development within a country.

The size and terms of existing external debt are obviously central in determining whether a country should undertake further foreign borrowing. What matters is not so much the total amount of foreign debt as the proportion of it which is repayable at any given period. For instance, if too much short-term debt is taken on, perhaps in the form of export credits offered by foreign suppliers of capital goods, which are normally depreciated over long periods, the annual burden of repayments may increase much more quickly than foreign exchange income, forcing the borrower either to impose severe import restrictions. This may lead to debt rearrangements or worse to defaults. Some of the Latin American countries have run into this kind of trouble recently. On the other hand, if interest rates are low, and repayment schedules long, a large external debt can be carried with only a small annual charge to be met out of export earning.

Very often, development projects take a long time to pay for themselves. If they are financed by short-term borrowings, repayment can place serious strains on a country's foreign exchange income, and damage its ability to meet the difficulties of those almost inevitable years when export earnings are lower than expected. The difficulties will be increased if the slow-maturing project is government-financed and not directly revenue-producing, since the burden of debt service will fall directly on the government budget.

Finally, one must recognize that government policies do have a major influence on a country's balance of payments, and thus on its ability to carry additional external debt. Creditworthiness depends importantly upon the success

with which a government keeps the over-all demand for foreign exchange within the limits set by exports, invisible earnings and the proceeds of external borrowing and foreign aid. It will find this very difficult if it adopts inflationary policies, since these tend to stimulate imports, to hamper exports, and so to encourage running-down of reserves or accumulation of short-term foreign obligations. It will find this difficult, too, unless it is prepared to face the unpleasant adjustments which are sometimes made necessary by a sudden fall in export earnings -- a circumstance with which most of the primary producing countries have become only too familiar in recent years.

It would be only natural for the developing countries to regard the matter of creditworthiness as of concern only to the potential lender. Certainly the lender will give it a great deal of attention: he wants to get his money back eventually. But it concerns the borrower as well. It cannot be economic to borrow abroad for any project, if the strain of repayment is going to involve the entire country in financial disaster.

* * * * *

that

II. Assuming that a country can afford to borrow, or even ^{that} the funds are available at no cost, what should foreign assistance be invested in? The difficulty is to decide which among the projects which may be available in a developing country deserve priority -- "priority" in this sense implying not that any one project can hold the key to national development (a dangerous delusion) but that a selected project deserves a place in the front rank, along with others chosen for their importance in different fields. The guiding rule must be to direct investment into those projects which will make the greatest possible contribution to the economic growth of the country concerned.

Ideally, this approach calls for a detailed appraisal of investment possibilities in each sector of a country's economy -- a slow and expensive business. As I shall argue later, an appraisal of this kind is of such value that the expense is justified. But fortunately, one usually need not wait for the conclusion of such a comprehensive analysis before making a start on the most urgent projects. All that is needed to bring these to light is a reasonably methodic examination of the broad requirements of each economic sector.

Such an examination tends to divide itself naturally between basic services on the one hand, and the needs of industry and agriculture on the other.

By basic services, I mean such things as roads, railways, electric power generating stations and transmission networks and ports. Without these services, which are often the responsibility of the government itself, other sectors of the economy cannot grow. If one basic service is failing to meet the demands upon it, the effects will be serious, and the urgent need for investment will usually be obvious. Bottlenecks arise or threaten to arise. Let me give two examples, both of which resulted this summer in a loan being made by the World Bank. In Colombia, the demand for electric power in the city of Medellin has been growing at the rate of about 11% a year, and has outstripped generating capacity. In consequence, power rationing has been in force for both private householders and industry, and manufacturers who want to keep their factories running have had to install their own power plant. We lent the local power authority \$22 million to meet the foreign exchange cost of a hydroelectric scheme which should cover Medellin's power needs for the next seven years. In India, the Hooghly River has been

silting up so badly that normal-sized seagoing ships have found it increasingly difficult to reach the Port of Calcutta, and the import and export trade of India's most important industrial region has been seriously handicapped. A loan of \$21 million we signed in August will finance the purchase of dredges to keep the river clear, as well as a hydraulic study aimed at finding a long-term solution to the navigational difficulties.

Those were comparatively easy cases. It is less easy, however, to know if an investment in basic services deserves high priority when it is proposed as a means of stimulating investment elsewhere. One cannot assume that a new road, or new sources of power, will inevitably foster local agriculture or industry. Sometimes investments of this kind have conspicuously failed to justify themselves. This should keep us from financing the more difficult cases. It only tends to recommend serious probing in their economic justification.

A difficult problem in drawing up a public investment program is to keep a proper balance between economic, or directly productive, projects and social projects which, though highly desirable, make no direct contribution to increased production of goods or services. Most governments of poorer countries are aware of the unpleasant fact that their resources are inadequate to provide the public welfare services now becoming commonplace among the industrialized nations. It is even more painful to recognize that their ability to finance urgently-needed education programs, water-supply projects and the like may also be limited. Even in the straightforward economic field, it is necessary to maintain a reasonable division of resources between directly revenue-earning projects, such as railways, harbors and power stations, and projects, such as flood control works and (sometimes) roads which, while they do add to national income, do not earn revenues directly for the government. If too little attention is given to the revenue-earning aspect of projects, a heavy strain may be placed on the government's current budget.

The risk of making the wrong investment choice is much reduced if the government concerned has a general idea of the way in which it expects the country to develop. For this reason, we at the World Bank strongly encourage our member governments to draw up development plans or programs, realistically based, which will provide guidelines for public investment in their countries over a period of five to ten years. We ourselves stand ready to give what help we can in drawing up these plans, by lending staff members of the Bank to governments to advise on development programming, by recruiting outside experts to serve in the same rôle, or by organizing survey missions which will spend a few months in a country examining all sectors of its economy before preparing a comprehensive report. The precise task assigned to the mission or representative varies from one country to another, but the general approach is usually the same: to quote from a representative example (the instructions given to a mission we sent to Nigeria some years ago) it is "to assess the resources available for future development, to study the possibilities for development in the major sectors of the economy and to make recommendations for practical steps to be taken, including the timing and coordination of developmental activities". So far we have organized more than twenty such missions, including six to African countries (Nigeria, Somalia, Libya, Tanganyika, Uganda and now Kenya).

Ultimately, of course, it must rest with the governments concerned to decide how they will invest the resources at their disposal. But their task can be made very much easier with the help of severely practical surveys of this kind, based on the one hand on an appraisal of opportunities over the whole field for

government investment -- social as well as economic -- and on the other, on a realistic assessment of the resources available. The surveys have a further advantage. They are usually published. This means that not only the Bank but also other potential lenders are able to acquire an informed view of a country's plans and problems; the consequence is likely to be a better and more sympathetic understanding of its needs.

It is less easy to assist development in the industrial sector. Industrial investment is inherently more complex and risky: problems of technical obsolescence, of fluctuations in prices of raw materials, and of marketing (particularly if the product has to compete in export markets) increase the chances of loss, and demand managerial ability of a kind which, if available within the government, can rarely be spared for supervision of a single enterprise. For severely practical reasons, rather than those of capitalist préjudice, it seems that wherever possible, governments should reserve their scarce human and financial resources for investment in those essential basic projects to which private capital is unlikely to be attracted. A clear indication that the government does not intend to compete in the industrial field is in itself likely to act as an inducement to investment by privately owned companies. Here, incidentally it is worth noting that foreign private industry is potentially just as important a source of development capital as any government or international agency now lending to the poorer countries.

This leaves unsolved, however, the problem of encouraging medium-sized or small businesses. These may well encounter great difficulty in raising long-term capital, as they are normally too small to interest the overseas investor. One possible answer, we have found, lies in the establishment of national development banks, which often attract the support of both domestic and foreign investors, which offer a suitable means for the government to provide funds for small industry without becoming involved in its management, and which can in turn bring to the problems of the small businessman the local and detailed knowledge and understanding that are needed in this field. The World Bank has given advice in setting up development banks in many countries and has made loans to support the work of a number of them.

The encouragement of agriculture is perhaps most difficult of all. There are, of course, straightforward occasions when projects exist that can be expected to make good use of large amounts of international resources -- for instance, major schemes for flood control, drainage, irrigation or land reclamation. Some of these schemes can be expected to pay for themselves directly out of their own revenues. This is the case with two big irrigation schemes which we are helping to finance in the Sudan. Other projects may set budgetary problems for the government, since their benefits tend often to flow only to the farmer, leaving it to the government to service any international borrowings involved out of its general tax revenues.

Further scope for direct agricultural lending may be found in credit schemes to help the cultivator buy implements (perhaps through the medium of an agricultural development bank) or in the finance of marketing cooperatives. And of course, many projects for basic services have a direct and very great impact on agriculture -- in particular, the provision of farm-to-market roads, water supplies and electricity.

But it is clear that money alone will never solve the agricultural problems of the underdeveloped countries. The availability of international funds is quite obviously only one factor: agricultural development depends much more on the adoption of new techniques, on extension work, on the reforme of land tenure,

on a whole revolution in social attitudes. All of these are needed before much money can be put to good use.

Nevertheless, the more I see of the underdeveloped world, and of Africa in particular, the more I am convinced that the most important challenge to all those concerned with economic development there lies in agriculture. There is a very real danger that the comparative ease with which large industrial power and transportation projects can be formulated may lead us to neglect the problems of agriculture. Yet the vast majority of Africans earn their living from the soil, and this is likely to be so throughout our lifetimes. Agricultural development is a slow business, and seldom spectacular. But there is evidence on this continent that quite startling changes in living standards and productivity can be achieved by the ordinary farmer when money is put to work in intelligently-directed combination with legal or social reform, and with the provision of technical and other help designed to arouse the cultivator's enthusiasm and to provide him with the knowledge he needs to make good use of the seeds, fertilizer, water supplies, tools and communications that money can buy. I personally should be very sceptical of any development plan for an African country which did not put primary emphasis on the improvement of agriculture.

* * * * *

III. So much for the general considerations that should influence us in deciding how to put available international resources to work in support of economic development. But how are we to decide whether a particular project deserves support?

Here again I must give a warning. I am not going to discuss the choice of social projects, although I am well aware that these -- particularly in the fields of education and public health -- can play an essential part in economic development and although IDA is not adverse to considering some of them, their problems call for assessment by persons having an expertise that I, for one, do not possess. And because my time is short, I am not going to consider the purely technical or commercial assessment of projects, or the difficulties of arranging appropriate financing terms for them, since all of these matters, although extremely important, fall somewhat outside my brief for today. I would, however, like to emphasize in passing that this kind of detailed investigation is indispensable. We find at the Bank that in practice we must spend no less time in considering these matters than we do in studying the general economic aspects of projects. Today, though, I want to concentrate on the latter problem -- the question, that is, of whether a particular project will make a large enough contribution to the country's economic development to justify the investment it will require.

We can assume, following our earlier discussion, that the project belongs to an economic sector (say, power, or agriculture) whose development is believed to be of the first importance. We can assume, too, that the international resources to be employed will be made available on terms which will not put an undue strain on the country's balance of payments or its budget. The task which remains is to decide whether a particular project will best meet the needs of the sector concerned.

This decision will normally involve some sort of market study, the extent of which will depend on the kind of project being considered. Plans to grow crops or to mine ores for export may require that we analyze demand and supply prospects on a world-wide scale for the commodity concerned. This would obviously be true of cocoa or coffee-growing projects. On the other hand, a project to expand power supplies to a small area should require only a comparatively limited market study.

Theoretically, it is easy to define a satisfactory development project as one which earns (directly or indirectly) a reasonable return on the capital invested in it. This definition does not distinguish very well between purely financial returns and overall economic returns to the country. Nor, unfortunately, does this definition specify what rate of return is to be considered "reasonable". In the perfectly competitive economy of classical economics, a reasonable return would have to be at least as great as could be obtained by investing in comparable enterprises in the same country. But the perfectly competitive economy does not exist, either in the developed or the underdeveloped world, nor sometimes do comparable enterprises. Rates of interest, in particular, may be artificially manipulated, thus losing their value as a measure. Projects in the "basic" sector, such as power systems, railways, and irrigation schemes, generally have a monopoly position which makes it difficult to compare them with any others. Here assessment may have to be based on comparison not with alternatives within the country, but with costs and returns for similar schemes elsewhere.

Returns on projects which are not revenue-earning are also difficult to work out, although the techniques involved are fairly well known. For the most part, they involve calculating the value of what one might describe as a succession of detailed and informed guesses. A common example would be the method used to assess the value of rebuilding an existing road, where a series of calculations about reduced tire wear, lower fuel consumption, fewer repairs and so on is reduced to an over-all figure showing the expected average reduction in costs per ton-mile.

An economic appraisal of this kind must not leave out the indirect returns provided by a project. These may be of crucial importance in choosing between two projects, each of which costs about the same amount and provides a similar direct return in goods or services. One of these projects may well establish itself as clearly the best choice, not because it provides a measurably higher financial return, but because it makes better use of idle resources, human or material, or because it is likely to encourage further development. An example might be a choice between two possible routes for a railway, both costing about the same to build, both providing satisfactory shipment for goods being sent from one end of the line to the other, but only one crossing territory where economic development was likely to be stimulated by the improvement of communications. A similar situation might arise between two factory projects, one of which would operate very much on its own, while the other could be expected to stimulate the growth of related firms, serving it with raw materials or providing final processing for its products.

Account must be taken of indirect costs, as well as indirect returns. Many projects depend for their success on additional investment being undertaken elsewhere. This is obvious in some cases -- for instance in the iron mining operation in Mauritania, where the chief expense is not that of excavating the ore, but of building a railroad to carry it across 400 miles of desert to the sea. It is less evident, but still important, where a new factory will put a strain on local electricity supplies which can be met only by installing additional generating equipment.

Another important question in considering the economic merits of a particular project is the effect which it is likely to have on the country's balance of payments. On the credit side, will it generate increased exports, or provide an alternative source of goods or services which must at present be imported? On the debit side, how much is it likely to burden the balance of payments with the cost of spare parts, raw materials and, of course, debt service? One must not overlook the possibility of important indirect effects on the balance of payments as well. To mention only one example, the use of a large number of agricultural workers on a road building project may well make it necessary to increase imports of food.

Quite often, the selection of a project may involve a choice between two fundamentally different solutions to the same problem. This happens particularly with large transportation projects, when it may be necessary to weigh the advantages of a new road against those of a new railway, and both in turn against a project for improvement of river navigation. A similar choice may be needed between different way of producing energy. A familiar problem is that of choosing between a hydroelectric project (which usually has a high capital cost, but low running costs) and a thermoelectric plant (which is cheaper to build, but more expensive to run).

Yet another point of importance is whether the project's success is dependent on protection against competition. Commonly this protection may be given in the form of tariffs or quotas limiting the opportunities given to foreign suppliers of goods or services: within the country, it may be given by discriminatory taxation, by limiting the freedom of the competitor (perhaps to favor rail transport at the expense of the road user). Protection can on occasion be justified, particularly in the familiar case of the "infant industry" which needs to be given some help for a limited period while it establishes itself. But we should recognize that its use represents a distortion or diversion of natural economic forces. Used to excess, or in the wrong situation, it can mislead us into diverting scarce resources away from useful development projects into schemes which have no real economic justification.

Finally, one cannot leave out of account any regulations which may make it difficult to execute and operate a project economically. These are most often of importance in the case of regulated monopolies such as public utilities, and in our experience may cause trouble when they unduly limit pricing policies or interfere with independent management. It would be invidious for me to give specific examples here, but the sort of thing I have in mind is a government-imposed railway fare structure that requires that a favored type of product be carried at a loss, an imposed ceiling on power rates that makes it impossible to set aside profits for future expansion, or the appointment of persons to top management positions on the basis of political acceptability rather than expert knowledge. I should add that abuses of this kind are just as prevalent in the developed countries as in the underdeveloped world.

* * * * *

For those with the responsibility of trying to encourage the development of their countries, the foregoing may seem a rather daunting list of requirements. But it is no good trying to hide from economic facts. I believe that all these conditions are indispensable -- you cannot make satisfactory use of international resources unless you are certain that your country can afford to borrow, unless you know that the sector of the economy in which you want to invest is sufficiently important to deserve your attention at this stage, unless you have made sure that the particular project you select will provide an economic return justifying its cost. Scarce resources cannot be wasted, and capital, wherever it comes from, is a scarce resource. And in this respect international organizations whether they live on borrowed funds or on voluntary contributions have in this respect very heavy responsibilities.

On the other hand, I do recognize that some countries, in Africa, and elsewhere, may feel themselves ill-equipped to tackle the assessment of development possibilities in their territories. I trust that no country will on that account feel unable to embark on development projects. There are many people, including the World Bank, who are both qualified and anxious to help the developing countries in this task. In case of need their assistance should be requested.