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No. 155-A INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DE | INTERNATIONAL FINANCE
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filed speech bk. L.B. PEARSON

NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

This news story appear on page 4 of the March 4, 1970 issue of:

- [ ] THE NEW YORK TIMES
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- [X] The American Banker

Required Reading

World Should Take Middle Ground Approach to Developing Nations

World attitudes toward aid to developing nations are polarizing on an ideological basis while a middle-ground approach would be the most beneficial, Lester B. Pearson, former Prime Minister of Canada and head of an international commission which made a study of the situation, observed at the Columbia Conference on International Economic Development in New York. "I am always disturbed when I find conservatives and radicals, traditionalists and innovators in agreement on the need to reject proposals for reform put forward by people nearer the middle of the political spectrum," he said.

IBRD/IDA

It gives me very great pleasure to be able to join in the deliberations of this distinguished gathering. At the same time, I find it a rather intimidating honor to have to address you, not only because you have been discussing "development" on a level of expertise and technical and academic knowledge that I don't possess, but also because—and this may seem to be a non-sequitur in view of what I have just said—I was not able to attend the discussions at Williamsburg. I have, however, read the impressive and learned papers produced for this series of meetings. It is a tribute to their clarity that notwithstanding my "amateur" standing, I have not only read them with great interest but with enough understanding to provoke both much agreement and occasional dissent.

It is only by the effort of all of us that we shall come to grips with the development issue.

Those of us who were concerned with the preparation and production of the report are conscious of its limitations of scope and substance which, in part at least, we imposed on ourselves by what we considered to be the importance of early publication. We appreciate the examination it is being given by experts in the field; the constructive criticism, as well as approval, which it has received, and the debate and discussion it has provoked. Such discussion, which could help to bring about wise policy decisions by governments, was, after all, a major purpose of the whole exercise; or what is a "grand assize" for?

The report, in any event, is in large measure merely a starting point, from which, hopefully, we can develop a better understanding of the problems; help to produce better plans and policies; to drop those that are no good.

These last months, since the report's publication, have left me and my fellow commissioners in no doubt about the amount of re-interpretation, redirection, fresh inspiration and even rejection, at times the best part of inspiration, which the whole aid effort requires.

My chief impression of the various comments made on our report in the papers for this conference that I have read, and other views I have received, suggest that opinion is moving toward a considerable degree of polarization over the issues of aid and development. The difficulties however, and even the dangers from such polarization, in this as in so many other matters, seem to be widely appreciated.

On one side of this depening division (shall I call it another kind of development "gap"?) are those who are inclined to distrust the interventions of government in the economic process and believe that, on the whole, the evidence suggests that official economic assistance has, at best, made little contribution to the recipient nations' growth and, at worst, has seriously distorted it. They cite the difficulty—a very real one, of course—of establishing a dircet causal relationship between high aid and rapid growth, and from this they argue the relative unimportance of aid. To prove direct harm, their prize witness tends to be food aid to India which, in their view, encouraged the Indian government to under-invest in the agricultural sector, thereby hindering sound growth.

As a result of these judgments, they are not unduly worried about any alleged "crisis" in aid or development, or about the downward trend in aid contributions or disillusion over results. On the contrary, they would argue that an end to cumbersome, badly managed and usually politically inspired policies of aid can actually speed up the processes of normal growth. Countries which enjoy the stability, economic opportunities and good administration needed to attract private investment are, for that very reason, the ones whose development is on the point of becoming a process of healthy as well as sustained growth. There is no need for special assistance. Profitable openings are present. And if they are not profitable, they will not contribute to genuine development.

It is not as though, the argument continues, private corporations are not willing to venture overseas. On the contrary, one of the phenomena of our day is the fabulous growth in the foreign activities of great American, European and Japanese corporations, often organized—indeed increasingly so—on an international basis; with the strength, ability and wide-ranging vision needed for truly planetary operations, which will result in a fantastic increase in the world's ability to maximize the return on its resources. This is the best hope for a sane, workable, efficiently organized and soundly profitable development effort, with a maximum of free enterprise and without intergovernmental transactions of doubtful value and wisdom in which any developmental value is buried under an indeterminate and dubious mass of political, emotional, social, ideological and other extraneous considerations.

It is difficult to picture a viewpoint more completely unacceptable to critics at the other end of the spectrum, and who are increasing in numbers and noise. Their attack on economic assistance for development is precisely because it will facilitate the extension of private foreign operations and inter-governmental lending of a more traditional kind, as well as the preservation of social systems and economic structures which must be destroyed and replaced before there can be any constructive and supportable international cooperation for development. The present basis for such cooperation, they say, is precisely the network of Atlantic-European domination and imperialism from which it is the prime political aim of the developing nations to escape. We have been here before, the developing peoples say; or if they do not say it, they should. In any event, this category of critics says it for them. From the 17th to the 20th century, our local economies have been battered by foreign economic interests coming in to "open us up"—to "develop" us—whether we wanted it or not, and, without consulting us. Once installed, they gave us modernized export sectors, big ports and new trade. But the profits went back to the developers, not to us. "Dual economies" grew up; the rich part run for foreigners and a few privileged local followers; the poor part for everyone else. We did not go through the whole process of political liberation—so the argument runs—in order to find ourselves back with the East India Co. lightly disguised as the latest thing in multinational, decentralized, now socially responsible but still efficiency-oriented billion-dollar conglomerates.

Insofar as foreign aid, tied to Atlantic purchases and encouraging Atlantic tastes and techniques, which are becoming increasingly questioned in their own countries, makes the entry of the outside giants more difficult for us to resist—or control—then let us have none of it. It would be even better to seal ourselves off as the Japanese did for centuries.

Moreover, our own structures are still too experimental and weak to carry, successfully, the unholy weight of modern large-scale multinational enterprise. Our values are too vulnerable to confront the whole great, brassy adventure of "high mass consumption". We need time. Foreign aid, far from buying it for us, plunges us too quickly into the modern maelstrom of computers, skyscrapers, detergents and miracle drugs.

I hope I have not produced too much of a caricature in this quick sketch of the kind of criticism I find on both wings of the general attack on existing concepts and patterns of aid. I have certainly put in their most extreme form—not, I hasten to add, in a form that appears in the papers for this conference that I have read — a series of criticisms which in many cases do not yet add up to much more than a certain malaise and dissatisfaction with conventional answers, or a reaction against evangelical hopes and rhetorical exaggerations. Yet the trend may well be towards the extreme position, on both sides; which could lead towards a more or less early end to foreign aid and to all those other policies of special help—in investment, in trade, in technical assistance—which we have brought together under the heading of development strategy. The two extremes, traditionalists and radicals, meet on this point at least. No more special policies or arrangements; no more planned allocation of public money to other peoples' development; in a word, no more aid, in the popular use of the word.

I confess to you, as a liberal of very long standing—so long, alas, that I can claim a direct, if short, experience of a previous century—that I am always disturbed when I find conservatives and radicals, traditionalists and innovators, in agreement on the need to reject proposals for reform put forward by people nearer the middle of the political spectrum. I admit to you at once my bias. I am not an "all or nothing" man and I begin to worry when I find a concurrence of view between those who want to change everything au fond and those who do not want change at all, apart from a few alterations here and there to make things fit better.

Continued....

It seems to me that in politics—the issue of foreign aid is plunged into the very center of politics — there are not many occasions on which you can change everything. There are perhaps even fewer situations when nothing needs to be changed. I am as certain as I can be that the issue of world development over, say, the next three decades is simply not amenable to the great head-stirring or heart-stirring simplicities of the conservative or radical extremes. It is a belief which I believe most of you share—whatever may be your views about specific proposals, or solutions or approaches.

Let me give you some of my reasons for this belief. I start with my own estimate of where co-operation for development stands today. We cannot divorce this issue of development from the realities of the world economy in which it has to function and in which it will—or will not—succeed. If to the environment of 1970 we apply, unchanged, policies and attitudes evolved for 1870, or even 1950, then, I think, the whole effort stands a very good chance of failing. This is the core of my disagreement with those who would abandon officially planned international co-operation for development, in favor of renewed and greater reliance upon the traditional, international market system. This, I believe, requires far more confidence in earlier methods and in results than is justified by economic history. It would also gloss over the violent contrasts between our problems today and those of the areas and eras where "normal methods" are supposed to have worked. I believe, on the contrary, that the market system did not work unaided even in the most favorable conditions of the 19th century Atlantic world; that world of Europe and North America on whose axis we once assumed the total planet revolved.

A hundred and fifty years ago, most economists were dubious about the capacity of the new industrial system of that epoch to survive. What changed mid-century gloom to the long Victorian boom was, above all, the opening up to the Atlantic peoples, those already in America and those to migrate from Europe to North America and other continents, of the world's remaining virtually unoccupied belt of fertile temperate land.

This was the biggest bonanza ever to be bestowed upon a single group. It was done with little more cost than that of running the Indians and the Aborigines and the Bantu off their ancestral lands. It ended, for the time at least, the Malthusian nightmare of people outstripping resources. It was, if you like, manna from Heaven, aid from nature, aid from luck. This vast input of almost "free" resources, which men had the energy and skills to develop, took the Atlantic countries over the borders of modernization and into the new territory of "sustained growth."

Nothing comparable is available to developing nations today—unless we use our abundant capital and technology to provide a comparable form of aid relevant to our times. If we say they must develop without it, then we are really saying: "Let them eat cake."

Nor are the effects of this expansion exhausted. It gave the Atlantic people —representing less than 20% of the world's population—a grip on the planet's resources which they have since maintained and even strengthened.

As late as 1945, they controlled most of the earth's peoples and engrossed about 80% of the world's resources. They still enjoy that share of world income.

Indeed, the disproportion is increasing. In this relationship of overwhelming, one-sided power, the uncorrected market works—how could it be otherwise—as inequitably as it does, say, between landlord and harijan in an Indian village.

Even more alarming is the fact that present inequalities threaten to grow more intractable in the years ahead. The fact that the poorer, low income countries must develop in the wake of the successful giants of modern technology —Europe, America, Russia and, increasingly, Japan—reinforces the differences between 19th and late 20th century development. Public health, introduced ahead of technological modernization and higher living standards, has sent population and the work force shooting upward with the speed of a moon rocket. The relative lack of elbow-room in agriculture—at least until very recently and in certain areas—has sent despairing migrants away from the farms. They cannot cross the oceans to new and open land. So they drift to the cities where the needed scale of industrial employment has not yet developed sufficiently to absorb them.

To me, it all adds up to this: In the world's vast and deepening regional disparity — between North and South — without an exceptional effort, including transfers of a kind to suit the conditions of today but on a scale at least equivalent to the hundreds of millions of acres of available land which supported the growth of developing states in the 19th century, we shall face once again a period of deepening crisis and misery, with tragic results for security, ordered progress and peace in the world.

At this point, I become acutely conscious of critics at the other end of the spectrum. For them, I think, the prospect of disruption and revolution is not frightening. To some, it is even welcomed. It is something bound to result, moreover, from their analysis of our world situation. The unequal relationships of which I have spoken are the consequence, in their view, of the essentially exploitative character of the grip upon the world's resources by a few dominant imperialist powers.

Earlier, the developing nations, the "hewers of wood and drawers of water," provided raw materials and cheap labor. The profits, the capital gains, the value added have all flowed back to the original investors. Modernization in developing countries cannot now be achieved by sole reliance on these traditional patterns of commerce and capital. Trade and investment carried on between unequal partners do not produce sustained growth for the weaker party. And since aid, particularly tied aid, is in some measure simply a way of keeping the poorer community in a position of dependence on the aid-giver, this, too, perpetuates what is in essence a colonial relationship. From this crippling state of subjection, therefore, the only escape is the "clean break"—the kind of break the Japanese imposed on Western traders and missionaries in the 17th and 18th centuries; a stronger version, if you like, of America's revolutionary break with the Brithish trading system in 1776; a break comparable to Russia turning inwards in 1928 and launching the first Five-Year Plan.

To this analysis, my reaction must be much the same as it was to those opposite critics who advocate reliance on "normal" economic relationships. I do not believe in its possibility or desirability; but find it charged with dangerous implications.

Moreover, the "clean breaks" of the past have taken place in societies that were relatively simple and uncluttered technologically and economically; with structures that could be knocked down and rebuilt without the devastating disruption and infinitely complicated replacement jobs that would be required in the post-industrial technological society of today. It is easier to replace an igloo in the Arctic than a 20-story intercontinental hotel in a new African state.

These "breaks" have also taken place against backgrounds of less devastating pressures than we face today. America and Russia had great empty continents to develop. Japan was a lively compact country in which food and people were still in balance. The developing continents today, on the contrary, suffer from unbelievably heavy and intensifying pressures of population on food and resources. However effective policies of family stabilization may be over the next two decades, the next three billion babies are already, as it were, locked into the reproductive process, and over two billion of them will arrive, over the next 25 years, in the areas which can afford them least.

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If you are well-educated, well-fed and reasonably well-employed, it is easy to speak of a "clean break"; of the duties and splendors and opportunities of total self reliance, and to war nagainst the "Greeks bearing gifts." But we are not the ones who may suffer by these heroics. We do not witness the death of children and the misery of parents. We do not carry the despair of the workless or the hopelessness of the illiterate. If a "total break"—which to a few must be preceded by, or go along with, a "total break" at home—could mobilize the scale of effort and resources needed for a "great leap forward," a case could be made for supporting the idea. But if we are convinced that, on the contrary, it would result in more chaos than growth; would deprive developing peoples of essential transfers of capital and skills, it would be folly in the name of social change first to romanticize policies which could carry with them the risk of chaos or stagnation or both; and of spreading poverty, hunger and distress.

This should not and need not mean that present patterns of dependence, where they exist, have to be perpetuated. They should not. Social progress must be a part of economic growth. So also should new forms of international cooperation.

External assistance, however, can hasten as well as strengthen these processes of internal reform which are needed for sound development, if such assistance is judiciously linked to relevant criteria of performance, objectively, not unilaterally, established. Land reform, revised tax systems, increases both in savings and in their local investment, wider distribution of employment and income, and of the benefits of economic growth, rapid increases in literacy and technical skills—all these are critical for development and critical, too, for local reform. We surely despair too soon if we assume that a needed transformation of social structures must, of necessity, be inhibited by rationally devised and carefully coordinated assistance.

The mention I have just made of "relevant criteria of performance" brings me to the last point I want to raise. I admit that for one national government to sit down with another national government and suggest the criteria that should be used for external aid and internal transformation is as difficult an operation as it is unappetizing. It smacks of paternalism and patronage; and of 200 years of colonial guardians "knowing best."

It is for this reason, among others, that the recommendations of our report point in the direction of a greater internationalization of the whole aid process; of making it more genuinely collective and cooperative. What may be intolerable from a single rich government may be more acceptable from a responsible international body upon which donors and recipients are both represented and which gives some institutional content to the ideal of partnership; an ideal which, I know, to some is itself merely unrealistic fantasy.

What we propose in the way of reforms to the whole development effort must indeed look quite utopian if we consider only nations and their governments, only against the background of today's world. Men are not accustomed to the responsibilities—in the absence of war or aggression — that run beyond their frontiers. I know this well. We are not encouraged to make comparisons which include the needs of others. We are all in some measure stuck fast in inherited tribalism of a past with vast distances and vaster ignorance; with those instinctive fears and suspicions of "lesser breeds" that breed hostility.

But if we try to make the Copernican revolution needed in our day, we must begin whenever and wherever we can. For any beginning, we must see the planet as we now know it really to be; totally dependent on its shared biosphere of soil and air and water; bound together in a way in which the carelessness of each can corrupt all; see it one and indivisible, the only home in infinity of that single species, homo sapiens. It is only within this framework that all concepts of cooperation, partnership and mutual support find validity. It is within the planetary country named "Earth" that the rich and developed minority can become aware of the degree to which they engross the world's resources and also the degree to which their control of the major means of consumption and production can positively inhibit the development of other lands. It is a concept not easy to appreciate, or even understand, in this time of competition and conflict.

If we go no further than governments, then such a concept certainly will not be sufficiently appreciated to alter the ways of the past, even though those ways lead, inevitably, as I see it, to the explosions of the future. But if the destiny of this century, as it moves to its end, is to balance the effort and the genius that led to the discovery of physical and ecological unity with an equal effort to promote social and moral solidarity, then the reforms such as we propose in our report—altered and improved where desirable—can be seen not so much as inter-governmental arrangements as a modest step towards the building of the human community which now seems so remote but is so necessary for very survival; as a move towards a better planetary balance, more justice, more sharing, more generosity, more real partnership, for mankind. A planet cannot, any more than a country, survive half slave, half free; half engulfed in misery, half careening along towards the supposed joys of almost unlimited consumption from unprecedented production with less work; and all in an atmosphere of greater ease and luxury than man has known since the declining days of Rome. Neither our ecology nor our morality could survive such contrasts.

It is surely, therefore, of the most vital importance to try to remove or reduce them. That, I take it, is why we are all here.

From Vol. VIII, No. 1, January 1970 Development Digest

Pearson Commission's Recommendations on Development Debts

[At the request of the President of the World Bank, an international commission was formed in 1968 to make a comprehensive study of aid, trade, and development problems. The commission's report makes recommendations on a wide range of subjects; those relevant to debts are included below.]

The explosive increase in public debt and debt service has been the result of several factors. Although aid did not rise fast after 1961, loans became more prominent as a proportion of aid. Their share in the bilateral official flow rose from 13 to 50 percent in the course of the last ten years. While the terms of official lending softened somewhat in the early 1960s, expansion of export credits, usually the most expensive form of foreign finance, led to a sharp reversal in the over-all average beginning in 1964. This was arrested in 1968 when there was a slight improvement in average terms, but it is too early to tell whether the 1968 experience represents a new trend.

In addition, the increasing cost of money on private capital markets has compelled the World Bank and other multilateral lending agencies to raise their interest rates on loans. The rate charged by the World Bank rose from 4.25 percent in the late 1940s to 7 percent in 1969. Rising interest rates in world money markets also raised the cost of credits extended to purchasers of machinery and equipment. Effective borrowing costs were often higher than nominal interest rates on account of over-pricing

Commission on International Development, under the Chairmanship of the Right Honorable Lester B. Pearson, former Prime Minister of Canada.

practices which are difficult to assess. The rapid expansion of export credits in the 1960s, with a particularly large increase in 1968, greatly enlarged the share of lending at near-commercial terms. This was somewhat mitigated by a softening trend in the terms of export credits from five years or less in the early 1950s to somewhat longer maturities in the 1960s.

The recorded public and publicly guaranteed debt of the developing countries stood at $47.5 billion as of June 30, 1968. The shares of the various creditors in the cumulative debt at the end of 1967 are shown in Table 1. Over 61 percent of French and 33 percent of United Kingdom official debt represented loans in Africa. Another 50 percent of the debt owed to the U.K. is attributable to loans in South Asia, where 42 percent of Germany's and 62 percent of Japan's debts also originated. Debts owed to the U.S. were mostly in Latin America (40 percent) and South Asia (30 percent). The distribution of suppliers' credits found Latin America liable for 43 percent of the total and South Asia for only 2 percent.

Table 1: Share of Creditors in Outstanding Public and Publicly Guaranteed Debt of Developing Countries

(As of January 1, 1968)

Official bilateral loans		45.9%
Of which:		
Canada	0.9%	
France	2.5	
Italy	1.6	
Japan	2.2	
United Kingdom	4.1	
United States	27.2	
West Germany	5.2	
Other	2.2	
Eastern Europe		9.1
International organizations		18.8
Suppliers' credits		13.6
Other private creditors		11.2
Miscellaneous creditors		1.5
		100.0

Source: World Bank

Because the terms of private lending are considerably harder than those of official flows, payments of interest and amortization on export credits and other private loans amount to about half of the total debt service although commercial debt is only about 25 percent of the debt outstanding. [Note: This figure omits private debts not guaranteed by governments and, of course, all equity financing.] Borrowing on short term to finance long-term investments is likely to lead to trouble; but large aid loans can also create considerable debt service obligations. Grace periods which have held back debt service on concessional loans are now about to end for the loans contracted in the early 1960s when aid loans were expanding rapidly.

If new loans increase steadily at an annual rate which is higher than the rate of interest, the borrower will have a net inflow as the new funds will exceed the debt service. But if the rate of growth of new lending falls below the rate of interest, the direction of the net flow can change in a very short time. This is the situation which has arisen with regard to the developing countries, as the flow of resources to them suffered a marked loss of momentum in recent years. The net flow, after deduction of debt service, has already been sharply curtailed for certain countries.

Debt Relief

There can be no precise or statistical definition of what constitutes an "oppressive debt burden." There are no conclusive yardsticks for this purpose. It is not our view that debt relief should be provided irrespective of the policy performance of debtor governments. When developing countries find themselves in a position where they cannot meet their liabilities, this may happen because of misuse of aid funds in low-priority projects, excessive short-term borrowing on hard terms, or because of mismanagement of the economy. Where a debt crisis is patently the result of mismanagement and there is no reasonable hope for a change of policy, debt relief cannot be justified.

The picture, however, is seldom so bleak. The accumulation of excessive debt is usually the combined result of errors of borrower governments and of their foreign creditors. For example, long-term development projects are sometimes financed by short-term credits because these are often more readily available than long-term concessional loans. Failures on the part of the debtors will be obvious. The responsibility of foreign creditors is more rarely mentioned. The indiscriminate proliferation of export credits is a case in point; although these are extended by private parties, the governments of the creditor countries are heavily involved in providing insurance and refinancing facilities. The governments of the Development Assistance Committee member countries have repeatedly expressed their concern about the harmful effects of export credits, but they have failed to evolve a coherent policy which could reconcile their trade interests with the objectives of their development assistance. We recommend that, in regard to the possible excessive use of private export credits, a strong "early warning system" based on external debt reporting should be evolved by the Organization for Economic Cooperation and Development and the World Bank.

The procedures and principles for providing debt relief have often been inadequate in our judgment. The primary objective of debt refinancing or consolidation has been to "bail out" the borrower by providing strictly short-run accommodation. It has usually also been assumed that the settlement would be definitive, once and for all; but experience has been the reverse. When relief is given, it should be provided for an adequate period to avoid a rapid succession of debt relief negotiations. We recommend that debt relief operations avoid the need for repeated reschedulings and seek to re-establish a realistic basis for development finance.

Some debt rearrangements in the past have stipulated that the debtor government agree to a stringent program of economic stabilization. Even when greater monetary and fiscal restrains are appropriate, the resulting program has often not been sufficiently dynamic. Generally these agreements have emphasized restraint on government spending and credit policies and neglected the need for developing countries to mobilize domestic resources more effectively, to generate new export earnings, and sustain sound development outlays.

Preferably, debt problems should be considred in consortia or consultative groups where the accent of the discussion is placed on developmental problems and policies. There is a close connection between debt difficulties and the need for future foreign assistance. These issues should be discussed together and in relation to one another. If a debt crisis is accompanied by a thorough study of the development needs of the country in question, which has identified valid requirements for external finance, then a ceiling on new export credits, for example, should be only one aspect of a viable arrangement. It is equally important to suggest how such credits are to be replaced by external resources on more suitable terms so that the growth momentum is sustained. Under present arrangements, this is seldom done. We recommend that, when it is necessary to set limits on new export credits, equal attention be given, where there is a sound development program, to the possible need for concessional external assistance.

When the borrower's difficulty arises from the nature of the debt structure rather than from a temporary foreign exchange shortage, a better way to assist is usually to extend new loans to refinance debt. For example, in order to lengthen the effective maturity of the over-all debt, it may be appropriate to couple a ceiling on export credits with new long-term loans from official sources for retiring short- and medium-term obligations. Similarly, refinancing can be used to reduce the average effective interest rate payable on existing debts. The extension of credits to finance debt service payments is in present circumstances a useful aid form. We recommend that aid-giving countries consider debt relief a legitimate form of aid, and permit the use of new loans to refinance debt payments in order to reduce the need for full-scale debt relief negotiations.

Terms of Assistance

As the flow of development aid rises, it is essential that the lessons of past debt crises be used to avoid similar problems in the future. Part of the explanation for the current debt problem lies in the terms of past loans which were harder than the borrowing countries could bear. If concessional terms are not available, they will either have to forego development opportunities open to them or face even more formidable debt service problems in the future. It is true that concessional loans impose an additional burden on those countries which already provide a very large proportion of their assistance in the form of grants (e.g., France). However, reasonable uniformity in loan terms from all donors to a particular developing country is quite essential.

We recommend that the terms of official development assistance loans should henceforth provide for interest of no more than 2 percent, a maturity of between 25 and 40 years, and a grace period from 7 to 10 years. The length of the maturity and grace period may vary according to the circumstances of the borrowing country, and developing countries with very low incomes per head should receive the most favorable terms. There may be cases, such as loans to developing countries that are nearing the goal of self-sustaining growth, that would justify an exception to this terms rule. However, such exceptions should be kept to a minimum and should in no case apply to loans made under consortia arrangements.

The growing scope of World Bank operations is reflected in the steady increase in Bank lending. In 1960/61, gross disbursements were $398 million; in 1968/69, they had risen to $762 million. This expansion is more dramatically demonstrated by the rise in new lending, which is not yet substantially reflected in disbursements; in 1968/69 the volume of new loans was $1.4 billion compared to $847 million the previous year. The success of this expansion program raises the question whether these loanable resources can be provided at World Bank interest rates and used to best development advantage without accentuating the debt and balance-of-payments problems of low-income countries. Our answer is in the affirmative, provided, the terms policy of the World Bank Group is made more flexible.

Because of the recent rise in interest rates in capital markets, the interest rates the Bank must charge on its loans have also been increasing over the last two years, and now stand at 7 percent. This may prove too high for many developing countries. It would be helpful, therefore, if ways could be found to reduce the interest rates on some part of the increase in the Bank's lending so as to make available new resources to good-performing but poor countries without further endangering their debt structures. The most sensible means of lowering these interest rates would seem to be to subsidize them, using an outside source of funds which would not reduce the income of the Bank or harm its credit standing in capital markets.

We recommend that donor countries commit the equivalent of one-half or more of the interest payments due them on official bilateral loans from developing countries to the World Bank to subsidize the interest rates on some Bank lending. In 1967, 50 percent of such receipts was $231 million. The flexibility this arrangement would give to World Bank operations would particularly help those middle-income developing countries which have nearly exhausted their creditworthiness for Bank loans, but which do not receive any International Development Association credits because IDA does not have enough resources.

[Excerpted from "Development Debts," Chapter 8, Partners in Development: Report of the Commission on International Development. New York: Frederick Praeger Publishers, and in London, Pall Mall Press, 1969, pp. 123, 153-160, 164-166, and 220-222.]

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