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McNamara Papers

Statements  
1978

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Robert S. McNamara Statements / Speeches - Statements 11

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January 9, 1978

ARRIVAL STATEMENT IN CAIRO

I am delighted to be back in Egypt for my third visit as President of the World Bank. I very much appreciated the invitation your Government extended to me last September. In the four months since I accepted that invitation the international scene in this area has been transformed by the initiative of your President. The new situation makes it possible to hope that, at long last, this great and ancient nation may be able to give its undivided attention to the supreme task of raising the living standards of all of its people.

The difficulties which face you on the economic scene are indeed formidable, but no-one who visits Egypt can fail to be impressed by the immense potential of this country. Its location at the crossroads of world commerce; its soil, limited in extent, but some of the most fertile in the world; and, ~~outside the fertile valley, its resources as yet largely unexplored but with enormous promise;~~ but above all -- your greatest resource -- the human resource of a people capable of hard work and skilled in agriculture and commerce, ~~and with an ancient tradition of excellence in education.~~ If only these potentials can be fully mobilized I am convinced that Egypt can break out of its present economic poverty trap.

I have only one purpose in coming here today -- to see how far the World Bank can help this country, its government and people, to break the chains of poverty and bring a better life to all the people of the land.

We in the World Bank are happy that we are already associated with your efforts to develop and to renovate the key sectors of the economy. Since 1970 the Bank and ~~its concessionary-loan affiliate, the International Development Association,~~ have committed a total of \$1 billion for development projects and programs in Egypt, about \$700 million of this amount being approved in the past three years. We are involved in a broad range of projects designed to increase production and improve living standards.

/...

Our most recent loan was also our biggest to your country: a ~~World Bank~~ loan of \$100 million <sup>is</sup> ~~is helping to~~ finance the expansion of the Suez Canal, ~~a project which will not only benefit Egypt, through increased revenues, but will also indirectly have a beneficial impact on almost every country in the world.~~

Over four million people will benefit from your Government's agricultural drainage program, which is being supported by the Bank, ~~and~~ ~~IDA~~. The program is one of the largest of its kind anywhere in the world. It will help rid Egypt's agricultural land of waterlogging and soil salinity, prevent declining agricultural yields and make increased production possible.

Under the same projects we are helping finance your Government's program to reduce significantly the incidence of schistosomiasis, ~~or bilharzia~~. The program is now being extended to the whole of Upper Egypt, and over two million acres are being cleared of the threat of the disease. At least seven million people stand to gain, as many as 80% of whom, ~~in the past, might have contracted the disease.~~ <sup>schistosomiasis</sup> It is one of the largest ~~bilharzia~~ control programs ever embarked upon.

At the request of your Government, the World Bank has helped to organize an aid coordination group for Egypt. It met for the first time in May last year. The group has brought together a number of Arab and other oil-exporting countries, major capital-exporting countries of North America, Europe, Japan and leading international and regional financial institutions.

The World Bank's objective in Egypt, as in other developing countries, is to support national efforts and initiatives to increase productivity of the people and to help modernize the economy. In <sup>association</sup> ~~time~~ with your readiness to implement the necessary and often difficult measures that provide the basis for development, we are prepared to assist in any way we can.

Press Statement by F. Hassan

-1-

Cairo  
1/23/78

File

I want to begin by thanking the President the Prime Minister and members of the Government who have made this such a successful and enjoyable visit for me and my associates. Especially I want to thank Dr. Kaissouni and the Ministers of the Economic Group for the ~~the~~ lucid and comprehensive way in which they have explained the problems and opportunities which challenge Egypt.

This has enabled me to compare the situation today with the situation I found four years ago on my last visit.

Four years ago your President asked me if the World Bank would substantially increase the level of its lending which then stood at about \$40 million a year. I replied that we would be glad to be more actively associated with Egypt's development effort. But it was clear that such increased Bank financing would only be effective if there were to be improvement in 4 crucial areas of Egyptian economic and financial policy.

First an overall Plan for development was needed - a plan in which investment priorities would be established. Second ~~that~~ Egypt's external debt needed reorganization and careful management. Third, ~~that~~ the system of pricing needed to be rationalized, and that included foreign exchange rates. Finally, and most important, ~~that~~ there should be proper coordination of financial and economic policies.

Now four years later I find that this coordination has been measurably strengthened by the creation of the position of Deputy Prime Minister for Economic Affairs, and by Dr. Kaissouni's successful management of that office. A comprehensive Five Year Development Plan has been produced and with year to year revisions should serve as the basis for the proper setting of priorities and investment decisions. There has been considerable rationalizing of prices, and the foreign exchange position has been strengthened by the extension of the parallel market. There has been a dramatic improvement in the overall debt picture. As a result there has been a sharp increase in public and private investment, and increased foreign exchange earnings. G.D.P. growth, the overall growth of the economy, has accelerated till in the last year it was 9%.

The new economic policies have enabled the World Bank to keep its own promise; and our lending has increased six fold, amounting to about \$250 million a year over the past three years, compared with \$40 million in 1974.

Furthermore, Egypt's obvious improvements and successes in these crucial policy areas has made it possible for the World Bank to sponsor a Consultative Group of those countries prepared to support your development efforts, and this has greatly increased the flow of aid funds to this country.

Now what about the future?

Egypt is now moving into a new economic phase; its economic situation is still difficult but most observers would agree that some of the worst problems are behind it and that the economic potential of Egypt - which was never in doubt - can now begin to be exploited in a rational and dynamic manner.

But for this to happen Egypt can now not stop on the road on which it has embarked. It must continue on the <sup>path</sup> ~~road~~ of economic reform and provide the right incentives to its producers in industry, in agriculture and in other sectors and particularly <sup>in</sup> ~~for~~ those <sup>which</sup> ~~which~~ could produce for exports. Prices or tariffs which will not encourage production may have to be reviewed. The action that Egypt has taken in the past in <sup>adopting</sup> ~~the adaption~~ of a realistic exchange rate for much of its trade, has yielded such good results in terms of remittances for Egyptian workers abroad and more competitiveness for a number of Egyptian products, that it would be a pity not to continue on this path and enlarge the area where competition can bring its beneficent effects.

A major area of concern where lack of progress would destroy all other achievements and negate the effect of painfully achieved investments is the area of population. It was not good news to hear that the rate of population growth is still on the increase.



Your rate of growth of 2.58% is one of the highest in the world. Ministers who are equally concerned at this rate have discussed with us the measures they contemplate in this connection.

High population growth intensifies the already severe problems of urban and rural overcrowding, underemployment, meeting food requirements, lack of educational opportunities and pressure on the health services. If unchecked, the total population will by the end of this century approach the 70 million mark. Such growth would absorb approximately 2/3 of all investments, expected to be made in Egypt until the year 2000, thus leaving only a small portion for improvement of the standard of living in the country.

The World Bank which has already given some assistance to Egypt in this area, stands ready to contribute in the future. We wish to support the plans of your Minister of Health in every possible way.

As I have said earlier it is a great achievement to have a five year plan, the next thing is to have the right investment priorities year after year in agriculture, in education, in industry etc. Sectors have to be looked at as a whole rather than in a piecemeal manner. For example the sector of transportation and infrastructure. While the need for ports, roads, railways and other transportation is

obvious, many of these forms of transportation are alternatives to each other and must be planned accordingly rather than risk the danger of expensive duplications. In the short run and certainly during 1978 it will be desirable to continue as in 1977 to place ~~pressing~~ <sup>increasing</sup> emphasis in the investment program on the completion, rehabilitation, and renovation of existing facilities in both industry and agriculture to maximize productivity and output before undertaking new projects

On a more general front, the Government will wish to continue to study carefully the relative shares the nation wishes to allocate to investment versus consumption.

If the policies so well begun are continued I am sure that the investment opportunities that will thus arise will lead to an even larger financial contribution from the World Bank than has been the case in the past and I believe the same should be true for other sources of external financing.



This news item appeared on page **E3** of the **2 APRIL 1978** issue of:

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# McNamara on The Largest Issue: World Economy

*Congressional criticisms of the World Bank's operations have been growing. The grounds range from human rights concerns to protectionist impulses to demands that the bank be subjected to closer Congressional control. The Carter Administration, worried about the implications for restricting the bank's activities, has begun jawboning Congress.*

*Founded in the closing days of World War II to accelerate the reconstruction of Europe, the bank and its regional branches have become the largest source of technical and financial assistance to the developing nations. In the beginning, United States Government funds were the largest single source of its revenues. Now the world's private capital markets and other governments' contributions, as well as returns on the bank's own investments, provide most of the funds. Only two cents of every dollar of World Bank lending, for example, is financed with United States Government money.*

*Though it fastened an international chassis onto the bank, the United States has never really let go of the steering wheel. An American citizen designated by the President of the United States has always run the institution. The current World Banker is Robert S. McNamara, a Johnson appointee and a former Secretary of Defense who was once president of the Ford Motor Company. Leonard Silk, economic columnist for The New York Times, talked with Mr. McNamara, who begins his third term as World Bank president this week. The first thing Mr. Silk asked Mr. McNamara was what he thought were the major achievements and the major disappointments of his first 10 years in office.*

**CONTINUED**

**“Among the most fundamental of human rights are the rights to minimum acceptable levels of nutrition, health and education.”**

**Answer** — There have been dramatic changes in the World Bank during the past ten years. This year, for example, our new financial commitments will total \$8.5 billion. That compares to \$1 billion in 1968. And of even greater importance, there has been a sharp increase in the emphasis we are placing on direct attacks on poverty throughout the developing world.

But I think anyone interested in development would have to say that his greatest satisfaction as well as his greatest disappointment relates to the changing relationships between the North and the South, between the rich and the poor countries. He could, as I do, take great satisfaction in the fact that throughout the world there is growing recognition of interdependence among nations. But he would have to concede, as I also do, equal disappointments that there is so little understanding, particularly in this country, at what these interdependent relationships really mean.

**Q** — Now if I may break in at that point, the term “interdependence” has come to be widely used. But in fact is the United States economy really affected in any significant way by what happens in the developing countries?

**A** — It has become almost a cliché to say that we live in an increasingly interdependent world. But it is a fact, and the trend toward increasing interdependence I believe will shape our future in ways that we are just beginning to understand. Few among us realize that food shortages in sub-Saharan Africa or in Bangladesh will stimulate inflation in the United States, will cause bread prices to rise in the supermarkets and will lead to wage increases in the auto industry. Even less are we aware that within our lifetime population growth in Mexico is very likely to cause the Spanish-speaking population in this country to multiply severalfold and to become the largest minority group in the nation, with all that that implies for social stress and institutional change.

And the rising number of protectionists amongst us are clearly unaware that the health of our economy is increasingly a function of our exports, that export trade in relation to gross national product has almost doubled in the past ten or fifteen years. Today, it is a source of one out of eight of all of our manufacturing jobs, it takes the product of one out of every three acres of our farmland. Over a quarter of this export trade is with the developing countries.

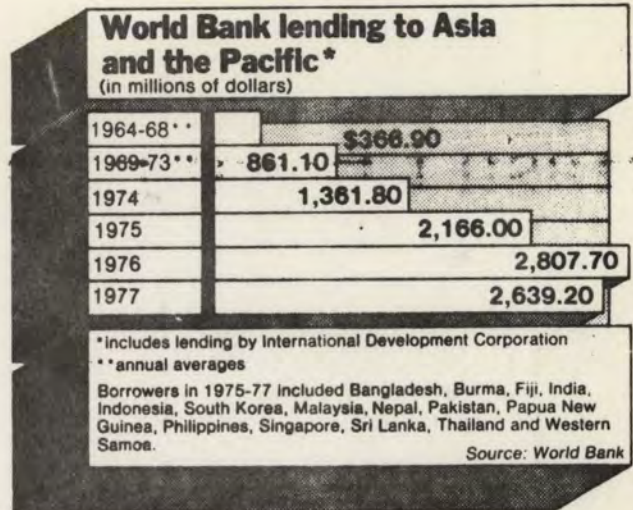
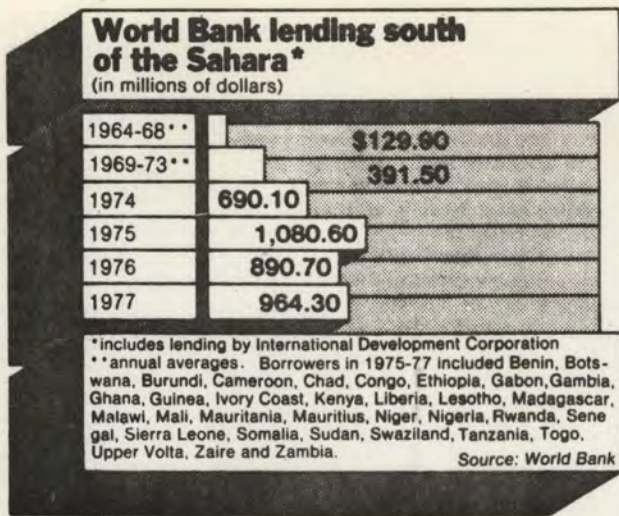
**Q** — Nevertheless, Congress stays skeptical, and I guess a good part of the American public does, about the need to provide large sums of money for the developing countries. What would you say is the American national interest in providing what are technically called capital transfers to the developing world?

**A** — To answer that question, we should divide the approximately 100 developing countries, with their population of two billion people, into two groups. In the first group would be the poorest countries — the Indias, Tanzanias and Malis. Their population totals approximately one billion, and their incomes average less than \$200 per capita per year, compared to our \$8,000. In these countries, hundreds of millions of human beings are living literally on the margin of life.

For humanitarian reasons alone, it would be in the United States interest to provide financial assistance to these nations that they then would use or will use to lay the foundations for future economic and social growth.

In the second group would be the middle-income countries — the Brazils, Mexicos, Koreas and Turkeys. These are the countries that, through high rates of growth in their domestic economies, made possible by capital transfers, can have such a beneficial effect on United States export trade and domestic employment. Much has been made of the potential for Germany and Japan to act as locomotives to stimulate growth in the economies of the other nations that belong to the Organization for Economic Cooperation and Development. But the developing countries offer export markets larger than those of Western Europe, Eastern Europe, the Soviet Union and China combined, and therefore they too serve as locomotives or stimulants to our own sluggish economy.

- Continued -



**Q — I think I am correct in saying that it isn't only people we used to think of as reactionaries but an awful lot of others, including liberals, who are now more skeptical about the whole aid business, whether it's called loans, or grant aid or concessional aid. In terms of the poorest countries, what evidence is there that the World Bank can attack poverty and can meet basic human needs effectively?**

**A —** There is only one way by which poverty in the developing countries can be attacked successfully, and that is by producing more in those nations. In no one of these countries can human needs be satisfied by the simple redistribution of existing income and wealth. In these countries, small is not beautiful. National incomes must rise.

Now, the bank's investment program is designed to expand production in those countries and has two components. The first consists of projects designed to strengthen the economies in general — for example, financing power plants, roads, irrigation works, fertilizer plants. The second component consists of projects directed or projects aimed directly at increasing the productivity of the rural and urban power.

I can tell you about one of those, that I visited three months ago, in the northern part of Nigeria, where a loan of \$29 million had been made. The bank is seeking to raise the incomes of 400,000 people from \$100 to \$200 per person per year. That loan will be used to finance small irrigation works, purchase seeds and fertilizer, to construct farm-to-market roads, and provide the necessary extension services to introduce new farming methods. Eight years will be required to com-

plete the project. But already, three years after it was started, incomes have been increased by 50 percent. And when my associate and I arrived on the scene, we were literally mobbed by farmers, first wishing to express their appreciation for what had been done and then demanding that the project be extended immediately to benefit an even larger number of participants.

**Q — The bank's focus on meeting basic human needs has become somewhat controversial. Some ruling elites, for instance, are not at all sure that the way to approach development problems is by going down to the grass roots in their countries. They would rather that the bank continue, as it did to such a large extent in the past, concentrating on large project aid. How do you feel about this whole issue of basic human needs?**

**A —** Well, as I said earlier, we must do both. We have to provide the infrastructure, the roads, the irrigation works, the power, the capacity, to serve as a foundation for growth in the economy. But I think we have learned — I hope the world is learning — that the trickle-down theory of growth is an insufficient basis on which to expect human needs to be met in a reasonable period of time.

**Q — What about human rights? Many in Congress seem to believe that the International Monetary Fund and the World Bank and other financial institutions should act to advance the cause of human rights, a term now used in international circles as well as in Washington. Do you think that the bank can deal with the human rights issue in operations and, if so, how?**

**A —** Among the most fundamental of human rights are the rights to minimum acceptable levels of nutrition, health and education. Hundreds of millions of people in developing countries, through no fault of their own, are denied these rights today. The bank, perhaps more than any other institution in the world, is helping large numbers of these people move out of absolute poverty toward a more decent life. What we are not capable of is action directly related to civil rights. Such action is prohibited by our charter, it would require information and competence which we lack, and there is no agreement among our member governments on acceptable standards of civil rights in a wide variety of political circumstances found in developing countries.

*- Continued -*

Many governments, both developed and developing, resent the efforts of the United States to force its own values and its own standards of conduct on other states through international institutions which by tradition have operated on the basis of consensus. Even more, they resent being asked to apply those standards except when the United States decides that its own security interests or other national interests dictate otherwise.

**Q — Is this true for governments both to the left and to the right? I'm thinking specifically of the kind of criticism that has been made of the failure of international institutions to lend to Chile under President Salvador Allende Gossens and the willingness of the bank to lend to the current Pinochet Government.**

**A —** We do not, we have not in this institution allowed our lending policy to be determined by civil rights considerations, whether they be civil rights considerations in leftist or rightist governments. And our lending policies to Chile have been dictated, both under Allende and under Pinochet, entirely by economic considerations.

**Q — Just exactly in those terms, where do you stand on the question of World Bank lending to Vietnam? I understand that Congress is taking a very dim view of World Bank lending**

**ing to Vietnam. But the Bank has had a mission out there, and Vietnam is a member of the International Monetary Fund and has been sympathetically interested in bank support. How do you feel about lending to Vietnam?**

**A —** The decision for granting the loans to Vietnam — Vietnam was not a member of the bank until recently. We have made no loan to it as yet. The decisions for future loans will be made solely on the basis of economic considerations.

**Q — Another concern expressed by Congress and by the Carter administration is that World Bank salaries as well as International Monetary Fund salaries are too high. Do you share in that concern? Would reductions in salaries affect the bank's operations?**

**A —** I believe that it is generally recognized that the International Monetary Fund and the World Bank are unique among international organizations in the quality of their staffs. Because 75 percent of the staff members are expatriate, the salaries have been set to provide an expatriate allowance by following the United Nations scales. It is charged by some that these are excessive. To examine that question and to introduce whatever changes in compensation that appear warranted, the directors of the fund and the bank have set up a special committee of directors and outside experts. That committee has employed professional consultants to assist it in its work.

What isn't generally recognized and what I want to emphasize is that the salaries of the staff of the bank are not paid for either in whole or in part by United States taxpayers but rather by the developing countries we serve. Any savings therefore which may result from reductions in bank salaries will not accrue to American taxpayers but rather to the developing countries. And those nations have insisted, and they state that they will continue to insist, that the institution set compensation levels sufficient to attract the economists, the engineers, the population specialists and the other experts which they consider the bank needs to effectively supervise in their interests the 1,100 projects, costing over \$60 billion, which we presently have under way throughout the developing world.

**Q — I think that some of the American concern is not just about who pays, but about so-called comparability between American members of the staff of the World Bank and American counterparts in the United States Government. Isn't some of the difficulty in the salary structure? Base salaries are calculated on the assumption that people will take standard deductions when in fact people in the higher brackets, making say, \$75,000 to \$100,000, are much more likely to itemize deductions and therefore get tax breaks?**

**A —** Well, the standards which we wish to follow, and which I believe that this committee will follow, will be to compensate the American staff members on the basis of gross salaries of counterparts in private sector enterprises in the United States. In that way, the problem of the tax reimbursement will not be involved.

**Q — Doesn't that imply, though, that you think that the World Bank is really more of a private than a public institution?**

**A —** No, but it does imply that we obtain most of our personnel from private institutions both in this country and abroad.

**Q — One more question about Congress. To what extent is the World Bank affected or encumbered by restrictions that are imposed on you by Congress?**

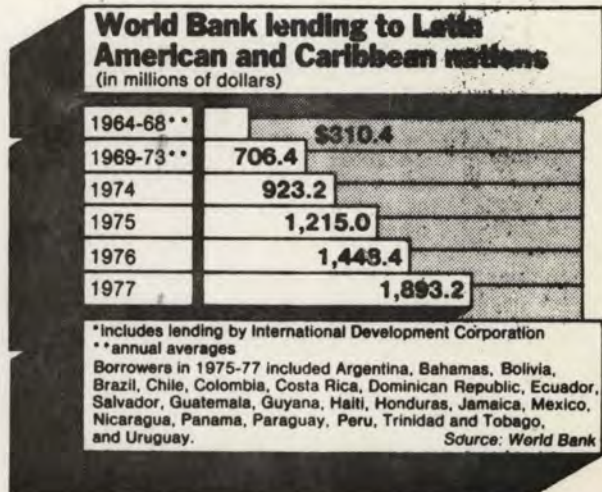
**A —** In the past year, Congress has sought to impose on the International Monetary Fund, the World Bank and the other international financial institutions restrictions reflecting the narrow political and economic interests of the United States. Loans to Papua, New Guinea; to Paraguay, to Laos, for example, have been opposed for ideological, civil rights or economic reasons.

United States opposition to the Papua, New Guinea loan illustrates the absurdity of the policy. That loan was designed to help 1,400 small farmers increase their earnings by approximately \$500 per farm per year through the production of 42,000 tons of palm oil, out of a worldwide production of 15 million tons of competing oil. The basis for the opposition was the desire to protect United States soybean prices. But the threat to these prices comes not from the production of a small quantity of palm oil by a nation of two and a half million people who have little opportunity for other productive employment, but rather from the rapidly expanding Brazilian production of soybeans. And the Brazilian soybean program is stimulated by the Japanese, who have not forgotten that the United States in 1973 embargoed exports to Japan of this essential element of Japanese diet.

The effort of one nation to force its parochial views on other nations drawn together in international organizations to pursue common goals is deeply resented. It can only lead to a serious weakening of these organizations.

**Q — Do other nations besides the United States do, or try to do, what the United States does?**

**A —** No.



- Continued -

**Q — Suppose that the United States were really to get itself in a state over its inability to control the bank. Could the bank — would the bank — function without the United States?**

**A — I don't believe the bank could function without the United States.**

**Q — Why is that?**

**A — I don't want to really answer the question. I have gone far enough already — it is very delicate and — and I have been hitting pretty hard.**

**Q — It is often said that the United States and the developing countries have a mutual interest in dealing effectively with the world food problem. Will there be food shortages in the next decade or so and, if so, how can they be dealt with?**

**A — C.P. Snow has said that in the coming decade we will live to see on our TV screens millions of human beings dying of starvation. That need not be the case, but it will occur unless action is taken now to establish both a world food grain reserve and to move rapidly to expand cereal grain production in the large food deficit countries. In 1973 and 1974, a 3 percent shortfall in grain production led to several hundred thousand deaths and to a 300 percent increase in grain prices. The acceleration in the rate of expansion of grain production in such countries as Bangladesh, India, Indonesia and Nigeria is required because over the past 15 or 20 years consumption in these countries has tended to outstrip production.**

**Q — It sounds miserable to even ask the question, but is this a political issue? Are American farmers concerned about rearing up a great deal of competition abroad for their ex-**

**Q — How does the bank see its role in the North-South dialogue? Does the bank in effect play the role of spokesman for the South or is it, as some people in the South perceive it, a kind of ambassador of the richer, capitalist developed world, the people with money to lend? How do you see the bank's role?**

**A — Well, this question brings us back to the point at which we started, the increasing interdependence among nations. As I tried to suggest, in the world of the future, the destiny of the United States will more and more be affected by the economic and social advance or lack of advance in the developing countries.**

The World Bank is working to facilitate a dialogue between the North and the South, to identify those actions which are in the common interests of both. It was to contribute to that dialogue that I suggested the establishment of the Brandt Commission [a high-level commission chaired by Willy Brandt of West Germany, designed to recommend ways of resolving North-South tensions]. And it is to further contribute to that dialogue that the bank has planned the introduction later this year of an annual world development report, a report to the world of the problems and prospects of the 100 developing nations, and of the action required to accelerate the progress of their peoples.

**Q — The oil-producing countries have become much more important contributors to the World Bank and its member agencies. Do you think that the oil crisis and the rise in oil prices which made this flow from the members of the Organization of Petroleum Exporting Countries was on the whole a good thing, or do you think that the world in fact has been greatly shocked by what occurred and that this is only partial compensation for the disorder created?**

**A — A good question, but I don't want to comment on that. It would take a speech to answer it.**

**Q — I would like to ask you a personal sort of question. You became President of the World Bank back in 1968 after leaving the job as Secretary of Defense of the United States during the Vietnam War. And I know from having been at various annual meetings of the bank and find that you have always been subjected to a certain amount of harassment, sometimes mobs in the streets — in Copenhagen and other places — over having been American Defense Secretary during the Vietnam War and then having become President of the World Bank, involved in the business of building up the world again and Vietnam back again.**

**I wonder if you could say from your own personal standpoint how you view these two roles in your own history.**

**A — Well, I haven't spoken of my role as Defense Secretary publicly, and I don't propose to start now. I will say about the role of the bank that it has been a very satisfying one for me, and I believe that in between moments of frustration — and they don't occur often — I would be quite happy to pay for this job.**

**Q — Is that also an answer to the salary question?**

**A — Yes, for me, but not for the others.**

### World Bank lending to Europe, Middle East and North Africa\*

(in millions of dollars)

1964-68**	\$179.4
1969-73**	581.2
1974	1,321.5
1975	1,434.2
1976	1,485.6
1977	1,570.1

\*Includes lending by International Development Corporation  
\*\* annual averages

Borrowers in 1975-77 included Afghanistan, Algeria, Cyprus, Egypt, Finland, Greece, Iran, Ireland, Israel, Jordan, Morocco, Oman, Portugal, Romania, Spain, Syria, Tunisia, Turkey, Yemen, Southern Yemen and Yugoslavia.

Source: World Bank

**ports that could damage the price of American farm products and farm exports?**

**A — I think it is not exactly that. But it is a fear that creation of a grain reserve, for example, would act to hold down grain prices, and it is that kind of concern that has led to opposition. But I want to emphasize that it has been the United States, including the Carter Administration, which has been in the forefront of world action to establish the necessary grain reserve and to stimulate the expansion of grain production in the food deficit countries.**





REMARKS TO SENATE BREAKFAST - 4/26/78

I know that you would prefer that I use the short time available to us this morning to answer the questions in your minds relating to the Bank rather than to express my own thoughts. But perhaps I can lay the foundation for the discussion which will follow by commenting briefly on four points:

1. The universe of countries we will be discussing.
2. The action required to advance the social and economic welfare of their peoples.
3. The results achieved to date.
4. The role of the Bank in this process.

There are approximately 130 countries which are members of the Bank. Of these, approximately 30 are developed and 100 developing. The 100 developing countries, with a total population of 2 billion, can be split into two groups: the Poorest Countries, the Indias, the Bangladeshes, Tanzanias, Upper Voltas, etc., with a population of 1 billion; and the Middle-Income developing countries, the Brazils, Koreas, Turkeys, Mexicos, etc., also with a population of approximately 1 billion. In the first group are hundreds of millions of human beings living literally on the margin of life. On average, life expectancy of the 1 billion people is 1/3 less than ours, their infant mortality rate is 8 times greater, and their literacy is 60% less; approximately one-half of the population is malnourished, with protein and caloric intakes less than acceptable standards.

The major factor influencing the rate of economic and social advance in each of these groups of countries is the determination and will of their own people. The investment in productive facilities, which is essential to their growth, must be financed primarily by their own savings (and approximately 80% of it is). The imports, which are equally essential for their growth, must be

financed primarily by their own exports (and they are). However, an expanding export market will permit a higher rate of growth; and supplements to their domestic savings, through flows of external capital, will also add to their growth rate.

The two groups of countries do differ in the type of capital assistance which they require. The first group (the Poorest Countries) need aid. It is to them that the soft loans of the bilateral and multilateral programs should flow (I might say in passing that half of such soft loans are, however, made to Middle-Income Countries). The Middle-Income Countries also require external financial flows, but they can service the debt on commercial or near-commercial terms.

Has the flow of trade and financial assistance been effective in contributing to social and economic advance? There have been failures, of course, but on balance the answer is clearly yes. In the quarter century between 1950 and 1975, the developing countries achieved a growth in per capita income of 3% per year -- a rate higher than that realized by industrial countries at a comparable stage of development. And the increase in per capita income did translate into an improvement in the quality of life: life expectancy rose from 40 years to 50 years, infant mortality dropped, and literacy increased.

Now what is the role of the Bank in this process and how is it financed? The Bank has three components: the International Finance Corporation which catalyzes the flows of private capital to private enterprise; the International Development Association which provides soft loans to the Poorest Countries; and the International Bank for Reconstruction and Development which provides hard loans to the Middle-Income Countries.

There lies before the Congress now a capital increase for the IFC for which there is strong support both in the Congress and among the other member governments.

The soft-loan operations of the Bank are financed by a combination of appropriations from governments and transfers from IBRD profits. To date about \$1 billion of profits have been transferred to IDA. The U. S. share of the governmental contributions to IDA approximates 30%, less than its 40% share of OECD gross national product.

The IBRD is financed from three sources: paid-in capital by governments, which supplies about 10¢ of each dollar loaned; retained earnings, which supply another 10¢; and borrowings on the private capital markets of the world which supply about 80¢. Of the 10¢ of paid-in capital, the U.S. has furnished about 2¢. So, in effect, the U.S. Government has put up about 2¢ for each dollar of IBRD loans. The U. S. and the other member governments, in addition, have subscribed to IBRD stock and these subscriptions could be "called" if needed. However, there have been no such calls in the 30-year history of the Bank -- if it is managed properly, there will be none in the future.

This year the Bank will finance approximately \$1/4 billion of new commitments through IFC, \$2.4 billion through IDA, and approximately \$6 billion through IBRD. These funds will be used for productive projects: each project must fill a high-priority development requirement; each project must be approved by the Bank's Board of Directors; each project is supervised through a 6- or 8-year disbursement period; and each project is reported upon, back to the Board, upon its completion. In 1970, we organized in the Bank an Operations Evaluation Department to evaluate the projects upon completion and to prepare the evaluation

reports for the Board. At the end of each year a summary of the individual evaluation reports is prepared. This year, for the first time, we published that summary. It, of course, records failures, but on balance one would have to say the program has achieved a high degree of success.

Now let me turn to your questions.



MR. R. S. MCNAMARA'S PRESS CONFERENCE IN TURKEY - APRIL 1978

(Transcript from tape recording made at Istanbul Airport,  
April 13, 1978)

I want to comment first on the activity which the Government has asked us to give priority attention to.

The first is to assist it to accelerate the disbursements. That is to say, the action on the loans that have already been approved. There are \$1,200 million of loans which have been approved, and not yet utilized. Of that amount some \$600 to \$700 million remains to be disbursed; and this has to do with some very important projects - energy projects, irrigation projects, industrialization projects, and the Government has asked us to give especial attention to these loans and we are very happy to do so, and we have every expectation that the rate of disbursements will be accelerated and very promptly.

Secondly, the Government has asked us to assist it in increasing the rate of utilization of its existing industrial capacity. As I understand it, that capacity is today utilized to the extent of only about 52 percent, and one of the major factors limiting the utilization of industrial capacity is the shortage of raw materials. This in turn, is a reflection of the shortage of foreign exchange which perhaps I can comment on later; but in any event, the shortage of raw materials is severely limiting the utilization of manufacturing capacity and therefore contributing to unemployment and under-employment and lack of economic growth, so that the Government has asked us to find ways to help it to finance the importation of raw materials which can be used to raise the rate of production of its manufacturing industries. We will make every effort to do so. Some of my associates are staying behind to work specifically on that problem.

Thirdly, the Government has asked that we act to substantially increase the rate of World Bank lending. It is correct to say, as the Government has, that Turkey has not received World Bank lending in the same volume as have other countries of similar size in similar stages of development, and this has been a reflection in part of the economic problems that the country has faced. We will make every effort to raise the level of World Bank lending in the future, depending upon the actions taken by the Government and the needs of the economy.

It's really hard to pick out the sectors of activity that should take priority over others, because there are at least three that are of the utmost importance. Perhaps the first, because it relates to the foreign exchange shortage, which contributes so much to your economic problem, is strengthening exports, expanding exports, and through this import credit I referred to a moment ago, through other financing of industrial activity over the years ahead, we will make every effort to assist your Government in expanding its exports. Unless that is done, you won't earn the foreign exchange you so vitally need to finance your imports. A second area of activity your Government has asked us to give priority attention to, is agriculture, because such a high percentage of people are dependent upon agriculture and there is such a potential for expanding the production of agriculture. While I was in Antalya the day before yesterday, I visited an Irrigation Project there that has as its objective permitting double cropping, and otherwise acting in ways that will substantially increase the incomes of the small farmers in that area. And closely allied with agriculture, of course, is forestry. We have a Forestry Project that your Government has been working on for some time, and we hope to bring it to approval very, very quickly, which will increase the incomes of roughly a hundred thousand people with very low incomes in the Black Sea area. A third area deserving of high priority is, of course, energy - production and distribution. I did not realize before I <sup>CAME</sup> ~~came~~, the degree



to which the power shortages are penalizing your life, handicapping your manufacturing, and severely restricting your economic growth. So, clearly this must be a sector of high priority and we will make every effort to direct that priority to it. Now this has been a very long answer to your question.

Q. Well Sir, I just wanted to follow up with another question. How soon do you foresee the recovery of the Turkish economy, after all the steps the Government has taken, the necessary steps. What is your projection ?

A. Well, let me say that I have learned long ago, that no foreign visitor, and certainly not I, can be an expert on an economy after a three or four days' visit, and I am not an expert on yours. Your Government, Ministers and leaders are far more capable than I to project the economic growth of Turkey. I will just say this, I think the country has great potential. Your natural resources have not yet been fully developed, and I say the forestries, the agriculture production, the mineral, the coal development which is so closely related to energy, and your exports are relatively low in relation to the state of development of your economy. I have forgotten exactly what they were, but let's say, \$1,800 million last year, that is very, very low for a country of this size, and this state of economic advance. So clearly, there is great potential for that. We mentioned a moment ago that the level of production in your manufacturing industries, something on the order of 52 percent. Even with existing capacity there is a tremendous potential for advance there, and its always been our experience that the Turkish people are a very literate people for the present level of income, very hard-working; and a combination of all these factors, natural resources, unutilized capacity, markets that have not been tapped and a hard-working literate people, I think give you a great potential for the future.

Q. Mr. McNamara, how creditworthy is Turkey ?

A. Well, if it weren't creditworthy, we would not be loaning money to it, I can tell you that ! Because we borrow in the capital markets of the world, and we must insist that the loans we make be to creditworthy countries, and that the countries be prepared to repay the loans, and on time.

Q. Is there any substantial agreement planned for the city of Istanbul ?

A. We have been working for a long time, many, many years with the city of Istanbul, hoping to help it redress some of its very serious problems. I asked the Mayor during the many hours we spent together this past week, what those most serious problems were, and he named two in particular; one was sewerage, and we are very anxious to assist Istanbul in attacking the sewerage problem. You know much better than I how difficult it is, because in part, it is a question of organizing some 22 (34) municipalities in the area, to join together to prepare, to organize an enterprise that can assume responsibility for the construction of the sewerage network. I understand from the Mayor, that the initial steps to initiate that organization have been taken, and I am very hopeful that in the not too distant future, we can finance a sewerage project, which is so important to the development of this area.

Transportation, he mentioned as a second problem. One does not have to be in the city very long, to understand you have a transportation problem ! So we will hope to help on that. I was asking him how he was going to deal with it, and he mentioned several factors, one of them a substantial expansion of the bus line, which makes very good sense; and having once been an automotive manufacturer myself, I asked about the role of the private

automobile, and if I understood correctly, he believes, and certainly I do, that in these major metropolitan areas, there must be restriction on the use of private automobiles. There is no way to solve the transportation problem without it, and I say that despite the fact that I spent 15 years of my life running an automobile company.

Well, no more questions ?

... Thank you very much.

May 8, 1978



Transcript of Robert S. McNamara Speaking to a Press  
Seminar in The World Bank on May 10, 1978

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Mr. McNamara: A number of my associates have already addressed you, and hence there is no need for a formal presentation from me. So why don't we start by your asking me questions, and I'll try to respond to them.

Mr. Merriam: Let me just remind everyone that we are on the record.

Q: Mr. McNamara, you were just reappointed to a five-year term as the President of the Bank. When your term expires, do you think the United States will still dominate the Bank?

A: Well, I don't think it does dominate the Bank. Nor should it.

Q: It certainly has the largest single vote?

A: Yes, that's true. The U.S. has 22% of the vote. But that doesn't enable it to dominate the Bank. Nor do I think it should. Nor does the U.S. really try to. So, if it doesn't today, I doubt that it will five years from now. I don't mean to say that its voice isn't heard. I don't mean to say that as a major contributor it shouldn't expect to have others listen to its position. But I don't believe that the Bank could be an international institution, and I don't believe it could function properly as one, if it were dominated by one member -- even though that member might hold 22% of the vote.

In the case of our soft loan operation, as many of you know, economic assistance to the developing countries was provided in past years primarily by the U.S. government, either bilaterally or in combination with multi-lateral institutions. Certainly that was true in the 1950's, and during the early years of the 1960's. But the fact is that the International Development Association was established largely through the efforts of the U.S. Douglas Dillon, for example, as Under Secretary of State, pushed hard for IDA. The U.S. wanted to get the other OECD nations to give stronger financial support to the developing countries.

Those efforts have been successful. Today, the U.S. share in the financing of the International Development Association is 30%, and that's down very substantially from what it was when the Association was founded. It was about 43% at that time. And the 30% is also significantly less than the U.S. share in the Gross National Product of the OECD nations. So, in a sense the U.S. is contributing less per dollar of income than are the other governments.

But, to go back to the question, or the assumption, of U.S. domination. There is no U.S. domination. It is true that the President of the Bank is a U.S. citizen. But it is not true that the President of the Bank operates, or should operate, as a U.S. citizen, or primarily with U.S. interests in mind. This is difficult for some people to believe, but if

you had asked the Treasury over the past ten years, you would have found that they certainly didn't think that the President, and the management of the Bank were under the domination of the U.S.

Now, this is, of course, a somewhat delicate matter, because there are many people around the world -- and perhaps especially in the U.S. -- who fail to understand how an international organization should operate. By definition, international is not national. They are clearly not synonymous terms. The difference is that in a nation the national government establishes policies of that nation, and in an international organization a national government -- no matter what the government -- does not establish policy. It's just exactly that clear.

Now, some Americans may say: "Well, if that's the case, we don't want such an institution. If we can't dominate it, we don't want it." But I think you have to confront that issue directly. When I meet with members of Congress what I say to them is this: "If you don't believe that this institution is operating in the national interest of the U.S., even though it is not dominated by the U.S., and cannot be dominated by the U.S., and at times even acts contrary to the desire of the U.S. -- if, in other words, you don't believe that such an international institution, free of your domination is in the national interest -- then, don't vote for it." But I tell them, I believe it is in fact in the U.S. national interest that such an institution exists. And I think I can persuade them that it is.

Now, I would be fully prepared to tell you here why I think I can persuade them, and what I say to them. I think one has to confront this issue openly. The Bank is not dominated. It should not be. It cannot be by any single government. And yet despite that, I believe it is in the national interest of each member government, and particularly the U.S. government, to support this kind of an international institution in an increasingly interdependent world. Well, that's a long answer. I'll try to keep my others short.

Q: Can you expand on what you would say to a Congressman on this issue?

A: As to why it is in the interest of the U.S. to support the Bank? Well, I don't want you to have to listen to a speech on the subject. But let me try to go over at least the main points.

Take trade as an illustration. The role of exports in the U.S. economy has changed dramatically over the last fifteen years. Obviously, they have increased in absolute terms. I suppose U.S. exports today must be on the order of \$125 billion a year -- up dramatically from what they were fifteen years ago. But what is even more significant is their increase in relative terms; that is in relation to other elements of the U.S. economy. They have increased 75% to 100% -- have virtually doubled -- as a percentage of GNP over that fifteen-year period. They have increased to the point that today in contrast to fifteen years ago, American exports are providing one out of every eight jobs in manufacturing and constitute the output of one out of every 3 acres of U.S. farmland. Now that clearly has a tremendous influence on the U.S. economy; and the point I want to make here is that one-third of those exports are going to the developing countries.

Now, there is a lot of talk today about the so-called "locomotive factor" in connection with the Federal Republic of Germany and Japan. Some observers say that their economies aren't advancing rapidly enough, and hence are not exerting sufficient pull and stimulus to the other OECD economies. The point is made that they should expand their rates of growth in order that the other OECD countries, including the U.S., can have a greater stimulus for their economic growth.

Very little has been said about the developing countries being such "locomotives", but in fact they are. In the last several years, their rates of growth and the rate of export expansion that those growth rates have stimulated in the developed countries, have been substantially greater than the rates of growth and the resultant export expansion within the OECD countries. Thus, the developing countries have provided a stimulus to the economies of the OECD nations, and they have provided jobs in the U.S. But Americans do not often think of it in these terms. Nor do they reflect on the size of those markets. They are huge. U.S. exports to developing country markets are greater than those to Western Europe, Eastern Europe, China, and the Soviet Union combined. And that is why it is important that the average U.S. citizen think through what can be done to help stimulate growth in those markets so that more jobs can be created in the U.S.

Consider a second illustration: cereal grains. You may remember that harvests in 1972 were below normal in sub-Saharan Africa, in the Soviet Union and in certain parts of Asia. Total grain production was down 3 or 4%. But because the demand for basic food grains is inelastic, this slight reduction in supply had a dramatic effect on prices of export grains, and they were driven up about 300%. Thus, a very small decrease in production had an immense inflationary effect on the cost of cereal grain.

Now, you might suppose that the adverse effects of that were felt mainly in India, and Africa. But no, it affected the cost of bread in the United States, as well. The price of bread -- and everything else made out of grain -- rose dramatically in U.S. supermarkets. And not only that, since wage rates in the auto industry, and many other U.S. industries, are tied to the cost of living, it triggered off a rise in the wage rate in these industries, and clearly boosted inflation in the U.S. at a time when that was the last thing Americans wanted. And that is going to happen again. Unless the U.S. helps these developing countries help themselves, unless it helps the food-deficit countries expand their grain production, I can guarantee you that you will have a stimulus to inflation in this country at some unspecified date in the future when their harvests are poor again. And their harvests will be poor again. They are bound to be. The unpredictable occurrence of bad weather makes that certain.

Finally, of course, there is the problem of rising population. There will be about two billion people added to the world's total population between now and the end of the century. The world's population today is roughly 4 billion; by the end of the century it is going to be roughly 6 billion. How

are they going to have enough to eat? Well, they will have to depend primarily on the food grown in their own countries. That is particularly true of the major food-deficit countries: India, Pakistan, Indonesia, Nigeria and most of sub-Saharan Africa. There isn't going to be enough foreign exchange available to those countries with which to buy the grain from other countries, even assuming for the moment that other countries -- and that would be principally Canada, the U.S., and Argentina -- were capable of producing the grain for the additional billion people, or were willing, if they produced it, to give it away. So, there is a very direct national interest for the U.S. to see to it that the developing countries, particularly the food-deficit developing countries, expand their grain production.

Another illustration of this is the case of Mexico. It has today a population of roughly 62 million. And it is said that there are in the U.S. some 6 million illegal Mexican immigrants. I don't know whether the figure is correct, but it's probably fairly close to the truth. So that means that roughly 10% of the Mexican population is in the U.S. today illegally.

Now, Mexico has some very serious problems. Mexico City is facing severe limitations on its air and water. It already has a population of about 12 million. It may be the largest city in the world before the end of the century. There is a 2,000 mile border between the two countries. At the current growth rate, the population in Mexico will double in roughly 23 years. So by the year 2000 it will almost surely be twice what it is today -- 62 million today, 120-125 million at the end of the century. Not much can be done to prevent that. I don't mean that there is not much that can be done to reduce fertility rates in Mexico. A lot can be done, and the present government is determined to do it. But, there is not much that can be done to change the size of the population by the end of the century. The women who will bear the children are already born. They have an age distribution that looks like a pyramid, whereas the U.S. age distribution looks like a column. In other words, in the U.S. there are roughly the same number of people in each age group, whereas in Mexico some 48% of the population is under 15 years of age. The women who will be coming into their reproductive age over the next 20-25 years are already born.

So the Americans who live in the Southwestern United States -- in Texas, Arizona, New Mexico, southern California and as far north as Colorado and Illinois -- really have only two alternatives. They can either accept Mexican immigrants, or accept Mexican goods. One can't build a 2,000 mile Berlin Wall between the two countries. And even if one did, it probably would not keep the immigrants out, nor can one expect them to stay in Mexico with no employment. If they are going to have employment, they have to have something to work at. The U.S. and Mexico have to work together to help them find job opportunities. That can be done in many ways, but obviously the U.S. is going to have to be able to import some of the things they produce. I would imagine that within our lifetime the Spanish speaking minority in the U.S. is going to be the country's largest minority. I doubt that many of you have thought of that before. But you should think about it. It is both humanitarian to help Mexico deal with these problems, and in the U.S. interest to do so.



Now, this has been a long answer to the question, but these are the points I have made to the members of Congress.

Q: You are very persuasive, and you just touched on the issue that's perhaps really the most ticklish one for you at this juncture. What is your perception of the prospects of getting the full funding which the Treasury is asking for on the Bank's behalf? And what can you tell us about what you are doing personally? It is a political process to encourage Congress to listen to the persuasive arguments you've just given us.

A: Well, obviously there are two aspects to these arguments: those that relate to the developing countries, and those that relate to U.S. domestic needs. But, let me first address your second point. I have been meeting informally with members of Congress. I don't think it's appropriate for an international official to meet formally with members of parliaments in the Bank's member countries, and I don't. Some members of Congress are critical of the fact that officials of international organizations do not testify before Congressional committees. But there's a very good reason for that. International officials act for other than purely national interests; they have a responsibility that goes beyond that, and it is generally accepted that:

- a) They shouldn't initiate contacts with parliaments; they should only undertake such contacts as they are requested to undertake by the government concerned; and
- b) The government concerned is the proper authority to carry on formal contacts.

So that is the way we function in the World Bank. I don't appear before Congressional committees, but I do meet with individual Congressman or groups of Congressmen at the request of the Treasury when the members of the Congress wish to. I have been doing that. For example, I met with a group of members from the House last week, the so-called freshmen and sophomores of the 34th and 35th Congress; and the week before that I was at a breakfast meeting hosted by Senators Javits and Church, with some 20 or 25 Senators. I have met with others individually, but always, however, at the request of, or through the channel of the U.S. Treasury, which is our source of contact with the U.S. Government. The Governor of the World Bank for the U.S. is the Secretary of the Treasury.

Now, you ask what I think the chances are of the appropriations request of the Administration being approved? Well, I think there is concern among members of Congress, not as it relates to the World Bank particularly, but as to the budget in general. You saw evidence of that yesterday. I don't know yet what has happened today on the vote on the budget, but there is an immense amount of pressure to hold down expenditures in the face of inflation, and an immense amount of pressure to hold down expenditures in order to minimize taxes. So it is perfectly understandable, and I think quite reasonable, that expenditures for international purposes should be put in the balance against expenditures for domestic purposes. And one of the Senators last week said to me "How am I going to tell my people, who have

just suffered a loss of property due to a flood, that they should pay 5½% for money to rehabilitate flood damaged facilities, homes, etc., when you are lending at a lesser rate to the people in Bangladesh?" "Well," I said, "that's a good question, and I'll tell you what. I'll go up there with you, if you want. If you don't think the answer I'm going to give you now is persuasive, I'll go up there with you and I'll meet your people, and I'll bet that you or I, or both of us together, can persuade them. Let's talk, for example, about food. You people have an interest in it. You have got to get Bangladesh expanding food production, or you are going to have to pay a price for it in the years ahead. Now, if the only price you're paying in lieu of that is 5½% interest today, instead of a slightly lesser rate if we cancelled this Bangladesh assistance, I maintain that you're better off to pay the 5½%. You are lucky to get the flood relief construction funds, you are borrowing. And I'm a 100% for that. But if the only difference is getting it at 5½, or getting it at 3½ by cancelling Bangladesh assistance, then you are better off paying the 5½ and having the Bangladesh food production increased."

If one puts it on that basis, Congressmen can understand it. You have to get down to their terms. They are up for re-election in November, and it is a very difficult thing: some constituent has lost his house, or lost his savings, and he wants to know why he should be concerned about Bangladesh, or Turkey, or Mexico, or some place else. Now, one has to address the problem in those terms, and I'm fully prepared to do so.

Q: The World Bank's salaries has become a political issue on the Hill. I have two questions about that. One, Hobart Rowen wrote in March that you were undertaking a study with IMF on your salary structure. I wonder what has come of that. And two, your own salary is about twice that of the Secretary of Defense, and you have held both jobs, and I wonder if you work twice as hard, and do twice as much in this job.

A: Let me answer the second one first. I work less hard than I did as Secretary of Defense, and I'm paid substantially more. But when I came down to Washington as Secretary of Defense I was paid \$25,000 a year. I don't think that was in the national interest. I personally was willing to do it, but a lot of other people you needed to have down here wouldn't come for that salary, or for what that scales down to. In the mid sixties therefore, an effort was made to correct that, and the Kennedy and Johnson Administrations did. They put through major changes, and therefore by 1969 the Cabinet officers salary, in a period of essentially no substantial inflation, had risen from \$25,000 to \$60,000, which I think was quite a reasonable move. And, by the way, it hasn't kept pace with inflation and since then, you are all paying the price for that. When 100 federal judges in this country sue the Federal government because the Federal government has mishandled the salary issue, you know you are in trouble. Those 100 federal judges are there because they are dedicated to their nation. And what they basically said in their suit -- which, as you know, they lost in the Supreme Court just a few weeks ago -- was that this nation is hurting itself, as well as the public, and that something ought to be done about it.

The point is that public-sector salaries, U.S. government salaries -- particularly at the upper levels -- have not been rising, and I tell you that you are going to pay a price for that. You are already. People are leaving the government because the government salaries are out of line. Now, I'm not arguing that ours in the Bank are right or wrong; that's not my point. But I am arguing that your government's are wrong in the upper levels, and you ought to do something about that.

Now, what about the study on Bank salaries? Well, let me digress a moment, and come back to that. There are three points I would like to make to you about our salaries. First, they are at the present time essentially on the United Nations standard. Seventy-five percent of our personnel are expatriate, non-U.S. citizens. And, as is the case in most international institutions, the compensation is set at a level sufficient to attract expatriates from relatively high-income countries -- Western Europe, Japan, Canada. That means basically that you have got to pay the compensation they would receive in their home country, plus an expatriate allowance, which generally is thought of as 25% of the compensation. And that is the theory that lies behind the U.N. scale, and we are essentially on the U.N. scale. That's number one.

Number two, we are a professional organization. I have never associated with a more dedicated group of people, or more able people.

Number three, our salaries are not paid by the U.S. taxpayers. The U.S. taxpayers might feel a little differently about this point I'm about to make if they were paying the salaries, but they are not. Not one dime of our compensation comes from the U.S. taxpayers. It comes from the developing countries, because we charge interest on our loans. The interest is sufficient to cover all of our costs, and leave the World Bank with a profit this year of \$230 million. We have earned \$3 billion in the Bank, and retained it in the business since 1946 when it was established. This year, earnings will be on the order of \$230-\$235 million, and that is after payment of all our salaries. The payment of the salaries, and the earnings, come from the charges we make on our loans. So the U.S. taxpayer is not paying one dime of our compensation. Nor will he benefit one dime if the compensation is cut. The professionals in the Bank are able, dedicated people -- that's why they're here; they believe in what they're doing; they believe in serving the developing countries -- and they are sensitive to the salary issue and they don't want one dime more than what is necessary to attract the high quality of people we need. That is their view, and I share that view.

Now, about the study. To determine precisely what is needed to attract the quality of people required to carry out these functions is very difficult. It is an extremely complicated matter, so we took the two Boards -- the Board of the IMF, and the Board of the Bank, because the International Monetary Fund salaries and the Bank salaries are on exactly the same structure -- and their Board of 20 Directors appointed 5, and our Board of 20 appointed 5, and those two groups of 5 Directors each appointed 5 outside experts -- U.S., German, Canadian and a couple of other nationalities to work with them. That committee of approximately 15 is chaired by a Director

of the Monetary Fund, whose name is Kafka, and therefore the committee is known as the Kafka Committee. It is studying the problem, and it has hired a U.S. consulting firm, as well as a French and a German consulting firm, to examine the problem. These consultants will report to the Kafka Committee, and then that Committee will come to the two Boards with a recommendation on what should be done.

Q: May I ask a question about lending operations? This current year you will lend about \$8 billion. Where are you going? Can you give us a look ahead for about five years?

A: Well, I don't have anything more to say on the future than what I said last year at the Governors meeting. This year, if you include IFC as one should, it will be about \$8.5 billion. In the future, it is hard to say. I would guess that it would increase enough to offset fully the price level changes, and to provide for a real growth of perhaps something on the order of 5% a year, reflecting the increasing need of the developing countries for capital inflows. I would guess that their need is going to increase more than 5% a year, and assuming it does, and assuming other multilateral institutions increase at about 5% a year in real terms, then an implication of what I am saying is that if the rising needs of the developing countries are to be met, there will be an increasing dependence on the private capital markets. I think that is likely to be the case. And this, in turn, has great implications for those private capital markets.

Q: May I ask you why the IBRD -- of all the international financial institutions -- suffered the most yesterday on the Hill?

A: Well, I didn't fully answer the earlier question about the outlook for passage of the legislation. I think the outlook for favorable action by the Congress on World Bank legislation is really quite good. The Treasury has been working very hard with the Congress. And I have met with the Treasury many times. While it's true that in the vote yesterday there was a reduction in the Administration's request for appropriations, the vote was really quite favorable. Depending on how you count the two extra members who were there, it was either 8 to 3, or 10 to 3. It was a very favorable vote in the House, particularly for a committee in which the chairman has been quite antagonistic to the appropriation.

As I understand it, what they did was to defer, not cancel, the request for a selective capital increase. They cut it in about half: from around \$600 million to about \$300 or \$330 million. And it was recognized that the amount that won't be appropriated this year, will be appropriated in subsequent years. While we would much prefer to have it this year, we are not going to be destroyed. It is a bad year, that is true. And in the case of IDA, which is a very sensitive matter -- and it is absolutely essential that we have a substantial part of the appropriation -- they cut about \$320 million. The amount requested was \$1,550 million, and they marked up the bill at \$1,230 million. Hopefully the Senate will restore some of that. Now with respect to your question about why there were larger cuts in the World Bank Group funds than in others....

Q: Particularly IBRD.

A: Well, regarding the IBRD portion, the reason is that it is the largest amount. Now this is an interesting point. There was \$600 million to be appropriated. Of the \$600 million, only \$60 million would be paid in. The other \$540 million is to permit the U.S. to subscribe to callable capital which could be called in in subsequent years. Our capital structure is really quite unique. We have today roughly \$3 billion of paid in capital in the IBRD, and we have \$2 billion of retained earnings in IBRD, and we have transferred a billion of retained earnings to IDA. So we have retained earnings of \$3 billion, \$2 billion of which is in IBRD, along with the \$3 billion of paid-in capital. Then we have \$27 billion of callable subscribed capital. Now in 30 years there has never been a single call on that subscribed capital. And in the next 30 years there won't be any call on it either, assuming this place is managed properly. But whereas in the past that \$27 billion didn't have to be appropriated, in the future -- because of new congressional procedures -- they have required that it be appropriated. Hence, the requested appropriation of \$600 million for the IBRD included \$540 million of what I'll call contingency funds -- conditional liability -- and \$60 million of cash.

Now, the cuts were largest in World Bank Group figures because they were the largest figures by far. Out of the total bill for international financial institutions, \$3.5 billion was for IBRD, IFC and IDA. So we had by far the largest amount. It was a vote of 10 to 3, if you include Congressmen Cederburg and Mahon, who are not members of the subcommittee, but who were present as members of the full committee, and who voted in favor of it; or 8 to 3, if you do not include them. So, it was a very very favorable vote. And last week in the Senate in connection with the Budget resolution that Senator Byrd put forward, an amendment to reduce substantially the IDA funds, was defeated by 53 to 37. So there is considerable support in Congress, even in this difficult year. And I can understand their political problems. They are serious. We all ought to be concerned about inflation. But I think members of Congress are beginning to understand what it means to be in a interdependent world. This is a different world than it was 10 years ago, 5 years ago. And Congress has got to pay more attention to these relations with other nations and think through what is in the U.S. interest. I do think development assistance is basically a moral problem. But even if you put that aside for a moment, and simply think selfishly, and act accordingly, I believe you are going to come out where I come out. You ought to support these bills.

Q: Would you care to name any of the government posts that are suffering under the present Administration from inadequate salaries?

A: Yes. I would say that they began to correct this about a year ago. I don't want to be tied down specifically on figures, but from 1969 until roughly 1975, there were no increases to salaries of \$39,000, despite a 45% increase in inflation. I just think that is unwise. I think it is unwise management. It's contrary to the U.S. national interest. There is no other part of American society, with minor exceptions, that manages itself that way. And what you have had, therefore, is a brain drain: a brain drain out of the U.S.



A: Yes. We have had. And, of course, we had intensive conversations particularly during the negotiations on the fifth IDA replenishment, which were concluded roughly nine months ago. And several members of OPEC made contributions to IDA for the first time. That was true of Saudi Arabia, for example, Saudi Arabia participated in the negotiated IDA replenishment, and there their contribution is contingent upon all other contributions being made, but in addition to that, within the past two or three weeks, they informed us they were going to make a supplementary contribution of \$100 million. So the answer is yes; we are in constant discussion with OPEC members on financing the Bank. Mr. Rotberg, our Treasurer, has just come back from Saudi Arabia within the past two or three weeks, where he was talking to them about IBRD borrowing. They are interested in possibly subscribing to future IBRD issues on a somewhat different basis than they have subscribed in the past. So we maintain close contact with them.

Q: Sir, just to follow up on the Vietnam question, what is your feeling about the Administration's linkage to human rights and foreign policy and aid considerations? Should there be a linkage, and is there a danger of a backlash in the future from the American public about contributing, or supporting projects abroad, that may be in nations that have political systems different from ours?

A: Well, again, I think the American public has to decide what it thinks is in its own interest. This institution has certain capabilities. We are capable of functioning as a development assistance organization. We are staffed with people who are qualified in that field. We have policies and procedures that are related to that. The member governments have, over time, formulated views and developed a consensus as to standards to be followed in connection with this development assistance.

Now, I think one should recognize that among the most basic of human rights is the right to minimal levels of nutrition, health, and education. With respect to those human rights, there is no institution in the world that is more sensitive to them, or doing more to advance them, than this institution. But another element of human rights -- and what is frequently meant by the term when it is used today in connection with U.S. interests -- are the civil rights: the protection of the person. And with respect to those rights, we are not qualified in the Bank to link our operations to them.

The Articles of Agreement, under which we operate, and which were adopted by the nations at Bretton Woods thirty-odd years ago, specifically provide that we shall not take account of considerations other than economic considerations. And this was done because this organization was founded to provide economic assistance. Secondly, as I said, we frankly aren't competent to deal with these other issues. We don't have political scientists, or social scientists, or others who are skilled in dealing with these issues. Thirdly, and perhaps more importantly, our member governments haven't agreed upon any standards to apply in this field. So, for all those reasons, it is very difficult for this institution today to take any effective action in connection with those elements of human rights

that constitute civil rights. With respect to the other elements of human rights, which are extremely important to most governments, we are the leading agency in the world dealing with them.

Now, I very much regret that I am going to have to leave you, because there are some ministers now waiting in my office. But I do want to thank you, not only for meeting with me today, but also for taking the time to be with my associates. We believe this is a marvelous institution, and we would like to have you come more often, and talk to us and raise any questions you have on your mind. We'll try to answer them. Thank you very much.

Q: Sir, just to follow up on the Vietnam question, what is your feeling about the Administration's linkage to human rights and foreign policy and aid considerations? Should there be a linkage, and is there a danger of backlash in the future from the American public about contributing or supporting projects abroad, that may be in nations that have political systems different from ours?

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"THE WHOLE WORLD'S BANK" -- MAY 23, 1978 : NBC "SEGMENT THREE"

Our "Segment Three" this evening is titled "The Whole World's Bank". Thirty-two years ago this month, the World Bank made its first loan to France to rebuild railroads destroyed in World War II. Since then, the World Bank, from its Headquarters in Washington, has loaned billions of dollars to countries in need of development. It has played a significant role in the history of the past three decades and stirred up a little controversy along the way. Irving R. Levine reports .....

IRL:

These are customers of the World Bank. People in countries too poor to borrow money anywhere else. World Bank loans provide sewers and schools in North African cities. Loans to help Mexicans raise healthier livestock. Money to improve life in African villages. A World Bank project to kill parasites that cause blindness in Upper Volta. Last year, World Bank agencies lent seven and a half billion dollars to fifty backward countries for projects to help these people live better. About 20% of the Bank's capital comes from the United States -- the rest from the one hundred and thirty other member nations. And, in Washington, where the World Bank occupies three buildings near the White House, congressional critics oppose the Bank's request that the United States now double the eight billion dollars it has already committed to the Bank. The Bank's President, Robert McNamara, says the additional money is urgently needed.

RSM: In the remaining twenty odd years of this century, the world's population, and principally in the developing countries who are the clients of this Bank, will expand from four billion to six billion -- two billion people will be added. And it's part of our responsibility to help ensure that those people have a reasonable chance to live, and I mean literally, to live.

IRL: McNamara, familiar to Americans as Defense Secretary during the Viet-Nam War, now brings his emotions and energy to the job of helping the poor. Recently, McNamara visited Bolivia, a military dictatorship, to inspect a World Bank irrigation project. McNamara and the Bank are criticized in Congress for lending money to countries that violate human rights and for financing steel mills and other projects that compete with American businesses. In Congress, the principal critic also charges that World Bank salaries are exorbitant .....

CL: They're too high .... way above what the US pays its people; and they're tax exempt besides. The head of the World Bank gets a hundred and sixteen thousand -- our Vice President only gets seventy-five. It's way out of line. And they're elite, and they're elite-minded: pretty hard for people who're getting their kind of incomes to understand the problems of the really poor.

IRL: The five thousand Bank employees are paid more than Americans in equivalent jobs, but World Bank officials say this is necessary to attract specially qualified people. Besides, the Bank makes a profit from loans and from shuttling its billions of dollars in reserves from country to country where it can earn the highest interest. The Bank has never lost a nickel on its low interest loans --- any country that defaults on a World Bank loan might never get a loan anywhere else. But for McNamara and these Bank Directors,

the key argument in asking for more American money is that the few nations that are rich must help the many that are poor. McNamara argues that it is in America's self-interest to help poor countries so they can become customers for American products. And the best argument, says McNamara, is right across our border.

RSM: Today the population of Mexico is about sixty-two million: roughly ten percent of the total number of Mexicans are thought to be illegally in this country as immigrants. The population of Mexico is doubling in about twenty odd years and that means while you and I are alive at the end of this century -- it won't be sixty-two million -- it'll be a hundred and twenty-five million. I say that the American people only have two alternatives -- take additional numbers of Mexicans or take their products. Help Mexico create employment in Mexico that will keep their people in Mexico, otherwise our two thousand mile border is going to be overrun.

IRL: McNamara's arguments do not convince critics in Congress who oppose giving more money to the world's poor people. The critics acknowledge that the World Bank has done much good but they ask, with all the problems the United States has at home, how much can we afford to spend on the problems of others? And, the Bank and the critics agree, given the size of the problems, no amount may ever be enough. Irving R. Levine, NBC News, Washington .....



THE WORLD BANK

Office of the President

July 21, 1978

Mr. McNamara:

Mr. Alvin Toffler (author of "Future Shock") has called Jack Maddux, asking for your "Tokyo speech" in June.

This is the only version Jack has, or that I have.

Are you willing to let Mr. Toffler, or anyone else, have a copy - re-typed?

B.

7/27  
Yes  
Lund

Toffler

212, 861 9847

72225

Remarks of Robert S. McNamara  
To the Press Club of Japan  
Tokyo, Japan June 8, 1978

It has been nearly five years since I last made an official visit to Japan. Seeing its vitality then, I was convinced that this country would become one of the financial centers of the world. I am pleased to see that my impressions of five years ago have turned out to be correct.

In the interval, the world was, of course, faced with the so-called "oil crisis" which -- together with related events -- triggered off the most severe economic readjustment since World War II. It is not difficult to imagine the enormous impact it has made on Japan, in view of its very heavy reliance on imported oil. That Japan has been able to overcome these major economic disturbances in just three years time is itself eloquent testimony to the drive and determination of the Japanese people.

Needless to say, reconstruction of the Japanese economy, which had been completely demolished in World War II, required extraordinary efforts. Japan's industrial production started from zero in 1945. You recovered to the pre-war level by 1960, and after a decade of vigorous growth, you have become one of the world's strongest economies. It is little wonder that it is called a miracle.

Now, there are four principal points I would like to discuss briefly with you this afternoon.

First, the relationship the World Bank has had with Japan;  
Second, the current economic situation in the developing world;  
Third, what needs to be done to address that situation;  
And, finally, Japan's own role in assisting the roughly 100  
countries and the two billion people of the developing world.

In looking back over the history of the World Bank, the case of  
Japan is unique.

Japan became a member of the Bank in 1952. Between 1953 and  
1966, the World Bank made 31 loans to Japan totalling \$862 million. As  
you know, among other important projects, these loans helped finance the  
new Tokaido Railway and the Tokyo-Kobe Highways. I am delighted to see  
that these facilities continue to make significant contribution to your  
domestic economy.

The fact that we were able to play a role in assisting in the  
reconstruction of the Japanese economy is a source of pride to us in the  
Bank. Japan is in fact a model of what we would like to see happen else-  
where in the world. For in the time-span of a single generation, you  
moved from being one of the Bank's largest borrowers to one of the Bank's  
largest suppliers of capital. Japan is indisputably the Bank's model  
graduate.

And Japan itself has clearly benefitted from this. Expenditure  
in Japan by World Bank borrowers, for equipment to be used on projects  
financed by the Bank have totalled more than \$3 billion. This illustrates  
your keen sense of competition and ability to take advantage of the  
immense market potential in the developing world.



In 1969, the Bank began its borrowing program in Japan, which has now become one of our largest. As of today, the Bank has borrowed from both the Bank of Japan, and the public market, a total of ¥761 billion, of which ¥598 billion is outstanding. By today's conversion rate, this is more than \$3 billion, and accounts for approximately 11% of the Bank's total outstanding obligations.

Further, Japan has strongly supported the International Development Association (IDA), ~~an affiliate institution~~ which makes available low interest, long maturity credits to the poorest developing countries, ~~which~~ ~~cannot be~~ ~~international World Bank terms~~ IDA resources are derived principally from contributions by the Bank's affluent member countries, and are periodically replenished. Since the founding of IDA, there have been five replenishments of its resources. In the last two replenishments, Japan contributed more than 10% of the total despite the fiscal deficits it had at the time. What is more, Japan has always been among the first countries to enact IDA legislation, and to accommodate us with advance contributions. 4% Though Japan currently has about a 4% share in the votes in the Bank, it has accepted a much heavier responsibility than this voting share would indicate. I will return to this point later.

But Japan's contribution to the World Bank is more than just financial. The Bank has learned a great deal from your own development experience. Your productive small-scale agriculture, your fisheries, your efficient small-scale industries, as well as your success in family planning, can all serve as models for developing societies. The Bank has made studies

on Japan's development experience, and we are applying the lessons we learned in our advice to member governments.

So there can be no question that the relationship between the World Bank and Japan, over the past quarter of a century, has not only been mutually beneficial, but has significantly helped to serve the needs of the developing world at large. We immensely value the support the Japanese people, and their government, have given the Bank, and we continue to count strongly on it.

Now, let me comment briefly on the current economic situation in the developing countries.

It is of course affected by the situation in the industrialized world.

As you know, the progress of the OECD nations in adjusting to the shocks experienced in the mid-1970s has been uneven. Their initial recovery from the recession in 1975 proceeded more smoothly than many observers had expected. But beginning with a brief pause in 1976, and then again in a more pronounced way during 1977, their economies seemed to lose momentum. Growth in their output and in their international trade during 1977 was well below historical norms, and also below what had been anticipated as recently as a year earlier.

In many of these industrial countries, growth in domestic demand has also been disappointingly slow, and has left unused a considerable part of these countries' productive capacity. Moreover, the modest growth which has been achieved in the past two or three years has been accompanied by persistent and increasingly severe imbalances in their international

payments, imbalances which have confronted policy-makers with the difficult task of striking an appropriate balance among domestic priorities and international responsibilities.

These countries are making great efforts to recover from the global recession. But there are inherent dilemmas in this. If an expansion policy is pursued, inflation may follow. This creates worsening imbalances in international payments. And the severe imbalances make it difficult for deficit countries to adopt an expansion policy.

The problems of the industrial world act to compound the already difficult economic issues faced by the developing countries.

As I pointed out last year in Washington, the developing world's economic record during the past quarter century had<sup>s</sup> been impressive. It surpasses the performance of the present industrialized nations -- other than, of course, Japan -- for any comparable period of their own development. But the high average rate of economic growth in the developing world achieved over these 25 years obscures significant differences between countries, and within countries.

The poorest nations among them, mostly in South Asia and sub-Saharan Africa, have done only half as well as the group as a whole. And the economic gains in all the developing countries have too often failed to reach the poorest individuals in their societies. Roughly 40% of the total population of the developing countries the Bank serves -- some 800 million people -- are neither contributing significantly to the economic growth in their nations, nor sharing equitably in its benefits. These

are the absolute poor. In most developing societies they form a huge group at the lower end of the income spectrum.

Economic growth is a necessary condition for development in any society, but in itself it is never a sufficient condition. And the reason is clear. Economic growth cannot assist the poor if it does not reach the poor.

The absolute poor are those trapped in conditions so limited by illiteracy, malnutrition, disease, high infant mortality, and low life expectancy as to be denied the very potential of the genes with which they were born. Their basic human needs are simply not met.

It is not a scene that any of us here -- so favored, so fortunate, so surrounded in our personal lives by privilege and advantage -- can contemplate without compassion and resolve.

We must try to grasp the magnitude of this poverty. Of the two billion people in the developing world:

- . 1.2 billion do not have access to safe drinking water, or to a public health facility;
- . 700 million are seriously malnourished;
- . 550 million are unable to read or write;
- . 250 million living in urban areas do not have adequate shelter;
- . hundreds of millions are without sufficient employment.

Most tragic of all, almost half of the two billion are children.←

They are the chief hope of their societies' future. And, yet nearly 50% of them suffer from some debilitating disease likely to have long-lasting effects. Well over a third of them are

undernourished. And 290 million are not in school.

The blunt truth is that absolute poverty today is a function of neglect -- and of our neglect in the affluent world as much as of anyone's.

Poverty tends to perpetuate itself, and unless a deliberate intervention is designed and launched against its internal dynamics, it will persist and grow.

The responsibility for such an effort lies, first of course, with the governments of the poorest countries themselves. It is clear that no degree of outside assistance can solve the internal problems of social inequity in developing countries unless the governments of those countries themselves are willing to take the steps that are necessary. An outstanding example of success in this matter can be found, again, here in Japan, which has worked so hard to rebuild its war-shattered society. Japan has clearly demonstrated that social equity and economic development are compatible.

If we are to expect, however, the developing countries to undertake these efforts -- efforts that often call for a great deal of political courage and leadership -- it is essential that the affluent nations ~~with~~ themselves provide more support for poorer nations.

~~The world community must help the developing countries~~

~~such objectives~~ <sup>A</sup> There are two principal ways that help can be provided:

- (1) Through financial assistance:
  - (a) by additional transfers of concessional finance to the poorest countries;
  - (b) by expansion of the flow of capital from both public and private sources to the middle-income countries;
- (2) Through expanding the opportunities of the developing countries to earn more foreign exchange through exports.

I have spoken frequently on these matters, and all of you here are familiar with the overall case.

Let me, now, briefly mention what role the World Bank has played in assisting the developing countries. Although the Bank's contribution can only be a part of the larger effort of the international community as a whole, it has not been insignificant. From its inception, through FY1977, the Bank Group has loaned over \$50 billion. It plans to commit an additional \$8.5 billion during this fiscal year. And it is reasonable to expect that the Bank Group will begin the decade of the 1980s at a level of operation in excess of \$10 billion per year.

In recent years we have greatly increased our efforts to help the poorest of the developing peoples advance economically. This can only be done by helping them to raise their productivity. Since most of the poor live in the rural areas we have given increased attention to rural development. In northern Nigeria, in West Bengal, in Mali, Thailand, Kenya, northeastern Brazil, southern Sudan, Upper Volta, and many other places in the developing world we are helping to design and finance rural development projects targeted specifically to increase the productivity of the

subsistence farmer.

Tailored specifically to local needs, these projects put together a broad mix of economic ingredients: feeder roads, rural electrification, functional literacy programs, veterinary stations, small-scale irrigation, storage and marketing facilities, health and family planning clinics -- the content of the package varies, but the principle remains the same everywhere: involve the poor, invest in their potential, enhance their productivity.

Now, as I pointed out in my address to the Board of Governors at the World Bank's Annual Meeting last September, a prerequisite for a more effective approach to the many development problems that face our member countries -- and which have been under discussion recently in many international forums -- is a better understanding of the impact of internal and external policies on social and economic issues in these countries at different stages in their development.

Accordingly, as a first step in what we expect will be an ongoing assessment of development problems, we have undertaken in the Bank what has been termed the World Development Report. Its objective is to integrate the diverse components of development experience into a more understandable pattern; to explore and evaluate the critical linkages among such components, linkages that often interact in strongly supportive or seriously disruptive ways not readily apparent; and to provide an analysis of the costs and benefits to both developed and developing countries of alternative ways of dealing with the principal development issues.

We have undertaken this analysis because despite the many uncertainties about the future, decisions must in fact be made by our member governments day after day. The World Bank, with its broad-based membership, its broad experience with the development problems faced by these governments, and its daily involvement with investment choices, is in a unique position to see the interrelationships between the major components of the development process. To the extent that these components are more clearly understood, the Bank itself, and its member governments individually, will be able to cooperate more effectively in reducing the worst aspects of poverty, and in integrating their economies into an international framework that will provide an environment of enhanced and continuing growth for all its participants.

The World Development Report has just been distributed to our Board Executive of/Directors and will soon be considered by them. We would then plan to submit it to the Development Committee for discussion at its Ministerial-level meeting in late September.

Not every development issue can, of course, be dealt with in this initial report. But as the work proceeds, and as more issues and problems are analyzed, it can provide a continuing basis for reviewing development progress in future years. The report will be revised annually as new data and new knowledge emerge, and it will be available for discussion by governments and in appropriate international forums.

Let me turn, now, to the role that Japan can ~~and expected by the~~ play in today's situation. As Japan is now in a very privileged position, it can contribute to development in a number of important ways.



First, there is the issue of Official Development Assistance. Admittedly, Japan's past level of ODA has left a good deal of room for improvement. However, we in the Bank have been aware that as a relative newcomer to the rank of donors, and with many pressing domestic demands as yet unfulfilled, Japan has made an impressive effort.

Now, the Japanese Government has announced that it intends to double its Official Development Assistance in three years. We estimate that would raise its ODA from a level of 381 billion yen in 1977 to 762 billion yen in 1980. As a per cent of GNP, we estimate ODA would increase from .21% in 1977 -- among the lowest of any of the 17 OECD countries -- to approximately .29% in 1980.

In addition, the recent and rapid evolution of the Tokyo capital market has enabled -- and will increasingly enable -- the middle-income developing countries to mobilize financial resources there through private channels. As we all know, greater access to capital markets has been one of the most urgent requests made by these nations.

Further, during the past two days' discussions with a wide range of Japanese officials, I was pleased to receive the impression that the Government is determined to stimulate the domestic economy so as to accelerate the recovery from the protracted recession. The 7% growth target, set out under the leadership of Mr. Fukuda, is very encouraging.

We all know that Japan's economic growth has a tremendous impact on the world's economy. No country is in a better position to appreciate the interdependent nature of the world's economy than Japan. In 1977, the developing countries accounted for almost 47% of Japan's exports. And Japan

in more dependent on imported natural resources than any other major industrial country.

These linkages indicate that the health of the Japanese economy is affected by what happens in the LDCs. Their advance, therefore, can work to Japan's advantage. Some have suggested that Japan can act as a "locomotive" to stimulate growth in the OECD countries. But what is often forgotten is that the developing countries can serve as "locomotives" as well. The fact is that they offer export markets larger than those of Western Europe, Eastern Europe, the Soviet Union and the Peoples Republic of China combined. In this context, the "global new deal theory", now being discussed in Japan, is of great interest to us in the Bank.

For, despite their own domestic problems, if the developed nations do not make available a more realistic degree of development assistance to the LDCs to alleviate the difficulties of the developing world, there is a danger of further shrinkage in the world's economy.

In its relations with the Bank Group, in particular, Japan has been more than cooperative. We in the Bank highly esteem the fact that Japan's recent IDA contribution of over 10% far exceeds its voting share in the IBRD of about 4%. That too, is an indication of Japan's genuine concern with the moral issues of development assistance. Let me emphasize that we are very grateful for Japan's cooperation.

Needless to say, many factors other than economic determine subscriptions and voting rights in international organizations. A gradual increase is being made in the IBRD in Japan's voting rights in order to more fairly represent

your economic strength. I, for one, am convinced that given Japan's sincere determination to improve its Official Development Assistance both quantitatively and qualitatively, Japan should eventually accomplish its objective of "harmonization".

The magnitude of Japan's current account surplus has been a major international concern. There are those who believe that Japan must attain a prompt equilibrium in its current account balances. But in view of Japan's economic structure, reducing the current account surplus overnight is, understandably, infeasible.

Japan's decision, however, to first attain equilibrium in the basic balance, in part through recycling a portion of the current account surplus into development assistance, is both feasible and welcome.

By extending more ODA, by increasing capital exports, by greater overseas investments, and by providing greater access to the developing countries into the Tokyo capital market, Japan is contributing positively to the economic progress of the world. But as I mentioned earlier, Japan's contribution should not be confined to financial assistance alone. As a dynamic example of economic progress and social equity, Japan's unique experience should be made available as well.

We are confident that Japan can attain the goal to double its ODA in three years. And we in the Bank stand prepared to cooperate with your Government in its efforts to achieve that goal through increased co-financing arrangements in Bank projects.

I personally am convinced that, given Japan's determination, it will, in the long-term, do even more than double its ODA. During the past two

days' discussions, I was most happy to discover that the strong resolution to increase ODA, even under the circumstances of deficit financing and the protracted recession, is supported by all circles -- government, business and the press. There are very few industrial countries where such general goodwill towards development assistance exists. I am confident that this goodwill in Japan will soon be transformed into a strong national consensus.

I am very happy to have made this visit to Japan. It has given me the opportunity to exchange views, to observe your sincere commitment to the task of development assistance, and to be reassured of your warm support for the World Bank Group.

Let me conclude by adding that we are always looking for a larger number of Japanese nationals on our Bank staff. We deeply value the ones we have. And we would like to have more.

Thank you very much for inviting me here to the Press Club. It is a pleasure to chat with you. And I would be happy now to try to answer any questions you may have.



Remarks of Robert S. McNamara  
On the Occasion of Receiving the Tun Abdul Razak Foundation's  
International Award  
Kuala Lumpur, Malaysia, June 10, 1978

Tun Mohamed Suffian, Tunku Abdul Rahman, Tun Rahah, Professor Ungku Aziz,  
Distinguished Guests, Ladies and Gentlemen:

I am <sup>immensely</sup> deeply honored, and grateful, for this Award.

Honored, because it has been made in the name of so great a  
public servant as Tun Abdul Razak.

Honored, too, because I have received it from the hands of  
Tun Rahah herself.

And honored because it puts me in the company of such distinguished  
recipients as Tunku Abdul Rahman, and Professor Ungku Aziz.

I have been deeply touched by the warmth and generosity of the  
citation.

And though I have traveled across the world to be here -- and it  
is a delight in itself simply to be back in Malaysia -- I must confess to  
you that I feel that the honor and distinction, which the Award represents,  
rightly belongs not so much to me personally, but rather to the staff of  
the World Bank, over whom I have the good fortune to serve as President.

And <sup>so</sup> it is, then, on behalf of that superb staff that I gratefully  
accept the Award.

If, ~~after all,~~ one looks at the life of the man for whom the  
Award is named, ~~Tun Abdul Razak~~ and if one considers the life work  
of my fellow recipients, ~~Tunku Abdul Rahman, and Professor Ungku Aziz~~  
it is clear that what this ceremony really celebrates is the concept of  
public service.

These men -- each in <sup>his</sup> their own way -- have dedicated their lives to public service. And more than that, they chose to serve others in a unique and demanding historical context. They have led their homeland into independence, and <sup>they</sup> have helped shape and build a new nation.

That is a task, and <sup>one</sup> awesome responsibility, that occurs only very rarely in history.

And these men, and their colleagues, accepted that task, and undertook that responsibility, with immense dedication.

Malaysia is what it is today -- a promising, vigorous, and determined young nation -- because of that dedication to public service.

~~Now,~~ <sup>T</sup>here are many satisfactions that come to me in my work as President of the World Bank. And one of the <sup>greatest</sup> best of them is my opportunity to meet and observe such public servants.

~~Consider this:~~ My own nation thinks of itself as young. But in fact, it just celebrated its 200th birthday. Like any American, I would have wished to have met and known the founding fathers of my country -- Washington, Jefferson, Benjamin Franklin, and all the rest. But that, of course, has not been chronologically possible.

But what has been possible for me, as President of the World Bank, is to meet, and know, and work with the Washingtons, the Jeffersons, and the Franklins of many new nations in the developing world today.

There are founding fathers -- and mothers -- still active all over that world. There are some in this very hall this morning.

I count myself fortunate to know them.

And I am fortunate for yet another reason.

The World Bank itself is young: not yet 35 years old. It is a unique institution: genuinely international and multi-racial, full of creative diversity, and both innovative and practical in its operations. It has a membership of more than 130 countries, and a staff of more than a hundred nationalities.

It is now the largest single agency of development finance and technical assistance in the world: involved in well over 1,000 projects in some 90 developing countries, and committing new funds at a level of more than \$8 billion a year.

Its staff is the most professional, most competent, and hardest working staff I have ever been associated with. That is why any award given me is really because of them, and that is why I accept this award in their name.

They are public servants of an extraordinary caliber: international civil servants, a category of public servants that really did not exist prior to this century. In a sense, they -- and others in the U.N. system -- represent the founding fathers of the whole concept of international public service.

It is a concept our century cannot afford to neglect.

For if the last quarter of the twentieth century illustrates anything, it is the inescapable reality of global economic interdependence.

International economic cooperation is no longer merely an abstract ideal: it is a ~~life-and-death~~ necessity *for economic survival*:

. Without a more equitable expansion of trade between developing and developed countries --

. Without a more realistic *flow of financial resources* level of Official Development

Assistance from the richest countries to the poorest countries --



- . [ Without a continuing expansion in the flow of *the* financial resources from both ~~public and private~~ ~~sources in~~ the developed nations to the middle income countries ]
- . ~~And~~ Without a greater effort on the part of the governments of developing countries to reshape their development strategies so as to both enhance their overall economic growth, and to channel more of the benefits of that growth to the absolute poor in their societies --

Without these practical and cooperative efforts of both the developed and developing nations, the quality of life for everyone in the world -- rich and poor -- is, in the end, going to be seriously diminished.

And why?

Because no amount of wealth today can isolate <sup>an individual</sup> a nation from what transpires in the rest of the world.

And what sort of world is that going to be in the next century?

One thing is certain. It is going to be crowded.

The current global population of 4 billion -- even with a very determined effort -- is not likely to stabilize at less than 8 billion. The implications of that on global food supplies, <sup>energy</sup> requirements, <sup>ecological</sup> pressures, and <sup>an</sup> already massive problem of absolute poverty are critical.

And for every decade of delay in achieving replacement-level fertility, the world's ultimate stabilized population will be 15% greater.

The population issue <sup>therefore</sup> is clearly one of paramount importance.

Malaysia has recognized that fact, and has incorporated family planning measures in its Five-Year Development Plans as a means of enhancing

family health and welfare, and reducing the population growth rate. As know, in 1973 the World Bank and the Government of Malaysia initiated a population and family health project designed to further those goals.

<sup>That</sup>  
The project has already made considerable progress, and I am very pleased that negotiations have just been concluded for a second Population and Family Health Project, which will be coming before our Board of Executive Directors for their consideration in a matter of day. This second project is designed to build on the success of the first, <sup>your</sup> to assist the National Family Planning Program to achieve its goal of reducing the population growth rate in Peninsular Malaysia from 2.5% in 1976 to 2% by 1985. It would also extend family planning services to Sabah and Sarawak as part of the Maternal and Child Health program there.

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The Award you have so graciously bestowed on me this morning carries with it the generous grant of 30,000 Malaysian dollars.

I wish to donate this grant to your National Family Planning Board. I do so because I have been so <sup>impressed by</sup> pleased at the Board's efforts to strengthen Malaysia's family planning program, and so encouraged at the outstanding success Malaysia has had in reducing fertility rates. I would hope that this grant could be used by the Board to help support new initiatives in this critically important field.

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The World Bank's relationship with Malaysia has been a long close one stretching back over two decades. Since 1958 we have lent so <sup>7950</sup> \$850 million for <sup>40</sup> 43 projects -- projects in such sectors as education, land settlement, agriculture, power, water supply, telecommunications, ports, railways, roads, urban transport, and rural development.

In recent years you have given increased attention in your development strategy to the alleviation of poverty through assisting the absolute poor to become more productive.

We in the Bank are fully committed to that same goal everywhere in the developing world. Absolute poverty, wherever it exists, can be reduced -- and ultimately eliminated -- but it can only be done through practical-development programs that can enhance the inherent potential and productivity of the poor.

I am deeply grateful for the honor you have bestowed on me -- and through me, on the staff of the World Bank -- here this morning.

It is typical of the generosity and graciousness of this lovely land.

Thank you very much.

E N D



You all believe you are here to pay honor to and bid farewell to Iris and Burke. But I should confess Marg and I have brought you together under false pretenses. Burke is not leaving, but merely shifting offices to join forces with Dave Sommers who has been serving as an elder statesman and policy adviser to all of us.

But even though Burke will not be leaving I want to say a few words about his role in the Bank and I will then ask Dave and Bernard to add to my remarks.

The Bank is a remarkable institution -- a unique institution -- welding together diverse national interests in the common task of advancing the social and economic welfare of two billion people. All of us in this room, male and female alike, have contributed to making it what it is today. All of us should take pride in that contribution. But none has contributed as much, or in as diverse ways, as Burke.

The Institution's reputation for integrity is a function of his integrity; the Institution's reputation for excellence is a function of his high standards; the Institution's reputation for objectivity flows from his own selflessness. I hope he realizes how much we all are in his debt. And I hope we will continue to emphasize that to him in the years ahead.

One doesn't have to be President of this Institution to appreciate Burke's contribution to it. But if one is, I can testify how immensely fortunate one has been to have had this wonderful man as counsellor and friend.

Will you all join me in a toast to Iris and Burke: may we long have their friendship and may they long have the happiness they so richly deserve.

6/21/78



Remarks for Norwegian TV

Question: In September 1973 at the Bank's Annual Meeting in Nairobi, you declared the Bank's primary objective from then on to be to fight poverty, particularly in the rural areas. What is in essence the experience gained from the first five years of this effort, and, on the basis of this experience, how do you see the Bank's role in promoting development of the poor countries during the next five years?

Answer: That is a far reaching question. I hope you will forgive me therefore if I present a somewhat lengthy answer.

Approximately two billion people live in the 100 developing countries which we serve. Our objective is to help these two billion people accelerate their social and economic condition. Of the two billion, 800 million live in absolute poverty----a condition of life so affected by malnutrition, ill-health and illiteracy as to be denied literally the opportunity to realize the potential of the genes with which they were born:

- .Their life expectancy is 40% less than ours
- .their infant mortality 8 times greater
- .their literacy 60% less.

It is to these people that a major part of the rural development program which I presented at Nairobi in 1973 is directed.

Our basic approach in helping the poor is to raise their productivity and to assure greater equity in the distribution of basic government services, particularly those affecting health and education.

As for raising productivity, since most of the rural poor are small farmers farming one hectare of land or less our objective is to raise their agricultural yields. This we do by finding improved seeds, additional fertilizer, on-farm irrigation, improved extension services and rural roads to improve movement of production to market.

In the five years since Nairobi we have financed projects which should substantially increase incomes---in most cases by 100%----of tens of millions of the absolute poor, probably 60-80 million in total.

Most of these projects are still in the process of implementation, not all will succeed in achieving their objectives, but already we are seeing favorable results.

I wish you and your listeners could have been with me a few months ago when an associate and I visited one of these projects in the interior of Nigeria. The project is located in Bokato State. The Bank loan of \$29 million is to be used to help 400,000 people raise their annual incomes from \$100 to \$200. It will finance small irrigation works, to purchase seeds and irrigation, the construction of farm to market roads and the expansion of extension services. Eight years will be required to complete the project. But already, three years after it was started, incomes have increased substantially. My associate and I were literally mobbed by the participating farmers wishing to express their appreciation for what we had done and then demanding that the project be extended to other areas. I do not wish to imply that we have all the answers to solving the world poverty problem. For example, among the rural poor, in addition to small farmers, are hundreds of millions of landless individuals with no access to land. For them, as well as for their counterparts in urban areas there must be created off-farm employment opportunities. This is very difficult and we are just beginning to make progress in this direction.

I hope we may count on the support of you listeners in pursuing this task. As imperfect as we are, I know of no other institution which has contributed more toward achieving the social and economic welfare of the hundreds of millions of the world's poor.





THE WORLD BANK  
Washington, D.C. 20433  
U.S.A.

Office of the President

October 31, 1978

Dear Staff Members:

In our professional lives in the Bank we are, of course, involved with the international community, dealing with the problems of development on a global scale.

But in our private lives we are members of our own local community, the greater Washington metropolitan area. Whatever our national or geographical origins, we are resident here. What we do -- and what we fail to do -- inevitably affects the well-being of the community as a whole, and the environment in which we all live.

All communities have problems. And what our work around the world teaches us is that no degree of government or outside assistance -- however necessary it may be -- can fully substitute for the efforts of the individual members of the community itself to solve those problems.

That is what makes the United Way so worthwhile.

We do not allow outside organizations to solicit funds in the Bank. We participate in the United Way precisely because it is not an outside organization. It is the community itself -- and hence we ourselves -- working together to help one another.

It is easy enough, of course, to rationalize away our responsibilities in this matter. We may be able to think of any number of reasons why we should excuse ourselves from making a contribution. But in the end, if we are honest with ourselves, such thinking is just that: an excuse, and a rationalization.

That is why the campaign is an appeal, not a directive. Its value is that it involves our own personal sense of social responsibility. It offers each one of us the confidential opportunity to confirm in our private lives what we know to be true in our professional lives: that all community development rests ultimately on the efforts of dedicated individuals working together to help one another.

Without that, nothing succeeds. Neither in our own community. Nor in any other.

*Robert S. M. Numan*

