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Digitized: December 23, 2013

THE WORLD BANK
Washington, D.C.

Fulton, D. - Articles and Speeches (1969)

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D. FULTON

From Our Sunday VISITOR, National Catholic Weekly,
Huntington, Indiana

Jan. 26, 1969

Filed D. Fulton speech

toward a better life

By DAVID C. FULTON *Chief of Public Affairs, The World Bank, Washington, D.C.*

the WORLD BANK in LATIN AMERICA

WHEN international finance comes up in conversation, people usually try to change the subject. Perhaps they think these matters are too complex for the average man. How many of us, for example, really understand why periodic crises in world currencies occur? How many of us—other than bankers — know what a letter of credit is, or a sight draft? Who understands euro-dollars? Or the fluctuation of the Brazilian cruzeiro? But though international banking and finance tend to be complicated, the work of the World Bank is quite straightforward, concrete and of direct and immediate concern to us all. The World Bank has one goal: assisting in the development of the less-developed of its 110 member countries. These include all the countries of Latin America, except Cuba.

The kind of help the Bank offers is not charity. It lends mainly to governments to help finance projects that can help a country build its economy and thereby provide its people with a more fulfilling life. It expects its loans to be repaid, and so far in its history they always have been.

Because we so often talk about development in abstract terms, it might be a good idea to review some of the characteristics of the typical under-developed country. Such a country would first and foremost be poor. In North America we have poverty—but in pockets. In under-developed countries, the poverty is general. Our typical country would lack adequate roads; its towns and cities would be chronically short of electricity, and there would probably be none in the countryside. Small farms would be at the subsistence level; large numbers of people—in fact most of them—would be ill-fed, poorly housed, badly clothed; most of the children would lack the opportunity for even the most elementary kind of education. The majority, though not all, of the under-developed countries, rely on one or two primary products, like coffee, sugar, cocoa or metal ores for most of their earnings. Since these commodities are subject to wide fluctuations in world markets, so the economies of thse countries are particularly vulnerable to price changes. When coffee is bringing in a high price, money comes in. When it sells cheaply, the country suffers.

These, then, are some of the conditions of underdevelopment — conditions which affect over three - fourths of the world's peoples. These are the conditions which the World Bank tries to remedy. There is nothing abstract about its work: It is directed towards making life better for people.

ROADBLOCKS TO PROGRESS — How has the Bank gone about its work in Latin America? By and large, it has helped its borrowers lay down what economists call "infra-structure" — that is, the basic facilities such as power, roads, ports, railways and so forth upon which the growth of modern societies is based. A road which penetrates a previously inaccessible part of the country opens up that part of the country to development. It permits the beginnings of trade and commerce, it opens new farm land; it enables the government to send in doctors and teachers; the inhabitants of the region can travel to towns and cities to see what modern life is like. Farmers begin to ship their produce outside. As a result of trade they earn money to buy goods and services. In a more intangible sense, once they are connected with the mainstream of life in their countries, people who have previously lived in isolation also gain a sense of identity with their country and become participating members of its society.

What does an electric plant do? In a great many cities in Latin America, power shortages are chronic. It is not uncommon for electric plants to shut down for several hours during the day, and anyone who has traveled throughout Latin America will probably have experienced power failures even in the largest population centers. But power failures and shortages are more serious than the inconvenience caused to the visitor. If there is not enough power, industry cannot grow. If industry cannot grow, the cities in Latin America — which are adding to their populations at extremely rapid rates — have no way of absorbing extra people productively, and high rates of unemployment result. Adequate electricity removes one of the roadblocks to the growth of industry, and to the wellbeing of city dwellers. When electrification is extended to towns and villages in the country, their economies are similarly stimulated. The village flour mill, previously operated by hand, can now be run by machine. Films for education and entertainment can be shown. Houses, schools and hospitals can be lighted.

Another obstacle to development has been the primitive state of agriculture. Improvement usually requires action on many fronts. More rational use of land, adequate equipment, good seed, fertilizers, credit, water for irrigation must all be taken into account. It does no good to provide a farmer better seed unless he has the proper equipment to plant and harvest. Most modern seeds, particularly the new "miracle" strains of wheat and rice, require chemical fertilizers. These must be purchased, but unless the farmer has access to adequate credit institutions he cannot afford them. In arid areas, land will produce only if there is enough water. But to get water on the land requires the construction of dams to store water, and building canals to bring it from the reservoirs to the fields. The farmer also needs roads so that his produce can be taken from the point of production to the towns and villages where it is to be marketed.

Another roadblock to development is education. Traditionally in Latin America education above the grade school level has been considered primarily the right of the rich, and families who could afford to do so frequently sent their children to Europe or the United States. In recent times Latin American leaders have realized that no modernizing society can afford to educate the few and to neglect the many.

CHANGE IN LATIN AMERICA — Since World War II the pace of change in Latin America has quickened. Thanks to bilateral programs of assistance from the United States and other countries, to international institutions like the World Bank and the Inter-American Development Bank, and to the determination of the Latin Americans themselves to improve their lot, a great deal is being accomplished. Look for example, at what has happened because of projects financed by the World Bank in the field of electric power. These have added over 13 million kilowatts during the past two decades to the power systems in Latin American countries. In Colombia, El Salvador, Mexico, Nicaragua and Peru, with the aid of World Bank loans electric power capacity has been expanded between 400 and 500 percent, and loans from the Bank have helped to double or more than double electric power production in Brazil, Chile, Costa Rica, Honduras, Jamaica and Uruguay. Power projects financed with the help of World Bank loans have ranged from the construction of small diesel stations to some of the largest hydroelectric installations in the world.

In transportation, the Bank has lent some $841 million. This money has helped in the improvement of road transport in eighteen countries from Mexico to Argentina. It has also helped improve railway systems in Mexico and Peru, and to build and equip the Atlantic Railroad through the Magdalena Valley in Colombia. In five countries in Latin America Bank Loans have been helping to improve and rehabilitate ports.

Over $322 million has gone into the improvement of agriculture in such projects as irrigation schemes, the expansion of livestock production, farm credit institutions and grain storage. Through the Bank and its subsidiary, the International Finance Corporation, which invests in private companies, many industries have been started or helped to grow. These include iron and steel, metals manufacturing, pulp and paper, electric products, automobiles and parts, building materials, mining and smelting, food products, furniture and home appliances, textiles, leather, chemicals and warehousing.

In education, the Bank has concentrated on providing assistance where it will make the greatest *direct* contribution to a country's development. A recent loan in Nicaragua, for example, will help double the number of places for secondary school students there. Secondary education is also being expanded in Guatemala.

IN RECENT YEARS — Latin American countries have realized that their economic development can be advanced by regional cooperation. Here again, the World Bank seeks to be helpful. For example, in technical assistance studies the Bank has helped to draw up plans for the regional development of transportation and telecommunications in Central America. These plans have been followed up by loans to build roads and to install modern telephone systems.

Underlying the Bank's success in Latin America is its commitment to the principle of working with the borrower from the conception of a project through to its completion. Loan officers at the Bank keep in close contact with member countries. When a country begins to consider a development project, its representatives will often come to the Bank's headquarters in Washington to discuss it. If, for example, the proposal is for a road project the loan officer will call in engineers from the Bank's Transportation Department. The Bank will usually recommend that its potential borrower engage consultants to help plan routes, to design specifications, and to prepare cost estimates. Once these are completed, the Bank and the country will negotiate a loan — usually in an amount large enough to provide the foreign exchange cost of the project, i.e., to finance the importation of goods and equipment from abroad. During the life of a loan, the Bank periodically sends missions into the field to see that the project is going well.

But the real measure of development is in the growth and improvement of institutions, in the change in social attitudes, and in improvement of living conditions for people.

MANY COUNTRIES have adopted effective systems of taxation for the first time in their history, so that all segments of the population are contributing their fair share to economic growth. Schools have been improved and extended, and universities have been modernized. Middle classes have come into being, and in some countries are growing quite rapidly.

Development is a long process, and nations cannot be transformed overnight. But in the last twenty years, a great deal has been accomplished in Latin America and there is promise of more to come. The World Bank, which has invested almost $3.5 billion there, is proud of its role in that part of the world. It looks forward to a long, continuing relationship. ■

April 1969 "A Road to the West" by D. Fulton for BF Review - filed HONDURAS bk. -

D. Fulton Think May 24/1969
Durham Univ, U.N.S.A
Saint John College
England

BRITISH UNIVERSITIES TALK

I once heard Paul Streeten of the Institute of Development Studies at the University of Sussex define development as the process by which twentieth century life encroaches on traditional society.

Perhaps because I am not an economist, and therefore shy away from measurements like GNP which seem so cold and impersonal, I find myself attracted by this definition. It seems to me that it translates the condition of underdevelopment from an abstract concept into personal experience.

Parts of this community, parts of this county, are underdeveloped. So are large areas like Appalachia in my own country, or the Indian reservations of the Western U.S. -- equal in size to some of Africa's new states, and roughly as poor.

Despite the existence of underdevelopment at home, however, the twentieth century has encroached far more on traditional ways in Western Europe and in North America than it has in Asia, Africa and Latin America -- though in these continents too there are areas of encroachment. For example, Costa Rica doesn't look like an underdeveloped country -- unless you look carefully; Mexico City, though surrounded by crumbling fringes, boasts a heart as modern and dynamic as any city in Europe or the United States, and with considerably greater architectural distinction than most. Even in Bombay, many parts of the city are more appropriately likened to a tropical paradise than to a festering slum.

But considered as a global system, the societies and economies of the world are clearly out of whack. In Sweden and Holland, the process of modernization -- the encroachment -- is very near complete. In other countries -- for example, the United States -- a surprising amount of unfinished business remains. And in Botswana, Paraguay, and Cambodia, to pick three countries at random, the job is barely begun.

The participation of rich nations in development of the poor is hardly new. Much of the infrastructure which enabled my own country to modernize was financed by Britain and France. As a colonial power, Britain engaged in development activities in India, and both Britain and France worked to develop their African colonies, as did the United States in the Philippines. In the last century and the early part of this one, private corporations, largely American and British, built railways, electric plants, and communications facilities all through Latin America.

However, the modern idea of development -- the theory that infusions of advice and capital could effect the modernization of traditional societies on a programmed and systematic basis -- that idea is a creature of the years following World War Two. The organized development effort as we know it today dates from that time.

What impelled the countries of the West to become interested in development? One must recall that this was the era in my country of the full employment act, and in yours of the beginnings of the Welfare State. Our political leaders had taken decisions from which, though parties in power would change, there was to be no real retreat: decisions extending the traditionally held view of the state's role to the physical wellbeing of its citizens. And having decided that poverty and unemployment had no place in their own societies, it was quite natural for leaders of that time to make the extension to the broader world around them. Their reasons were several: moral, humanitarian, political, economic and, occasionally strategic factors -- all entered in.

Thus began the development era, and it began with high hopes of rapid social transformation. But year after year, as new complexities unfolded, as new problems arose, and as beneficiaries of external aid failed to behave as they were expected to, many enthusiasts became disillusioned. The disillusionment has become particularly pronounced as the second decade of the development effort has drawn to its agonizing conclusion. Our disillusioned critics today point out that despite the twenty-plus years of formidable investment by the rich countries in the poor, and the far greater investment by the poor in their own development, little has happened.

And in a sense they are right: in terms of individual wellbeing, the two-thirds of the world which was underdeveloped at the end of World War Two is still largely underdeveloped today. The rich have encroached on the traditional sectors of their own economies and societies, becoming richer in the process; the poor have encroached little and have stayed poor.

Given this situation, is the effort worth continuing? Are we simply pouring money down a rat hole? One can argue convincingly that we are. Clearly there is a great deal of disillusionment

-- particularly in my country -- with the concept of foreign aid. The U.S. Congress passed the smallest foreign aid appropriation last year that it has ever passed, and nothing I have seen on the political horizons for 1969 would suggest a change of heart. Some observers go so far as to suggest that our assistance program is in its death agony. Certainly it is not likely to be continued at a sufficiently high level to achieve anything like the goals that were set for it twenty or even ten years ago.

Nor is the community of Western nations as a whole doing much better. The magic 1% of GNP which the U.N. set as a target for rich-country investment in the poor countries during the Development Decade has fallen slightly short, and that, it might be argued, was a rather under-ambitious target to begin with.

With faltering political will and a tightening hand on the pocketbook, we are at the critical point. Either we gain new resolve, appraise the needs realistically, and set about meeting them at an appropriate threshold of effort, or the development effort might as well be abandoned.

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I said earlier that the two-thirds of the world which was underdeveloped at the end of World War Two is still largely underdeveloped today, and that is generally a fair statement, but with an important qualification. While the condition of man on average may be correctly said to have improved little, some of the problems he faces today are quite different from the ones he faced at the end of World War Two. Many of these problems -- <u>new</u> problems --

have been created by the development process itself.

Here are some examples of what I mean:

... Modern medicine, applied in underdeveloped countries, has reduced death rates dramatically. This, rather than an increase in fertility, has created the population explosion, which often eats up advances as fast as they are made.

... Countries once without industry have now industrialized to an extent. However they find that they cannot export their manufactures to rich markets which provide the foreign exchange they need to run modern societies.

... Nations whose peoples once lived in isolated pockets, sometimes totally outside of money economies, now have roads, railways and airlines; the people swarm to the cities, inundate them in a flood of humanity that puts incredible strains and stresses on already creaky urban services.

... Countries once remote from the world now have radio and television; ideas from outside come in and aggravate social discontent.

... Vastly larger numbers of students study abroad today than in the years following World War Two. Often, however, they fail to return home -- the most critical kind of brain drain.

... While once there was no electricity, today shortages and breakdowns in electric services impair industrial efficiency and interrupt commercial life.

... Peoples with new-found political power now find themselves not always knowing how to use it.

This is all by way of saying that todays problems seem to me to be different from yesterday's. Many have been created by independence, by modern science, by the imposition of new ways, and even by the policies of the rich.

But the greatest problems of all have been caused by reductions in mortality without corresponding reductions in birth rates, with the consequence that although many of the foundations for development have been installed, their benefits have been reduced and sometimes cancelled out, by rapid population increase.

If aid programs can be oriented to recognize and to meet the shifting needs in the LDCs I am prepared to argue that the conditions for change are very ripe indeed. The basic preconditions for growth, if not yet all there, are at least existent to a far greater degree than in 1949. There is a tremendous amount of physical infrastructure already in place: roads, electric plants, harbors, basic industry. On a national level, incomes have grown at a quite satisfactory rate. Many countries have improved their education and health services. The quality of public administration is infinitely better today in many nations than it was in the 1950s. And we are greeted by the strange but welcome spectacle of rich people in the LDCs who are paying taxes -- and contributing their share to development -- for the first time in their lives.

For these reasons, I say that this is no time for retrenchment. The challenge is to capitalize on what has been done, and to begin coping with development's new problems.

* * * * *

Robert McNamara confronted a depressing state of affairs when he became the fifth President of the World Bank one year ago next month. Development was in the doldrums. As is characteristic of him, he allowed little time to lapse before evaluating the critical needs and focusing on how the three financing institutions which compose the World Bank Group -- the Bank itself, the International Finance Corporation, and the International Development Association -- could help to meet them. I say "help" because quite clearly the needs surpass their resources; what was needed was to advance the Group's leadership role in development, with the hope that other international agencies, and governments, would rise to the challenge.

Mr. McNamara early stressed that the Bank is more than a Bank; that it is a development institution. He placed emphasis on its role in providing technical assistance, and on its advisory help to members in planning and implementing development policies. He pointed out that as well as being a bank of money, we were a bank of resources and expertise, from which members could draw as the need arose.

But it was more than an increase in technical assistance that Mr. McNamara suggested. As the result of a staff survey of the capacity of our member countries to absorb additional capital for development, he sketched a bold plan to double the volume of the Bank Group financing in the next five years -- from a level of about a billion dollars a year in 1968 to about two billion in 1973. Reaching this level could of course involve greater governmental contributions to the International Development Association, the affiliate of the Bank which makes long-term, interest free loans in the very poorest countries, and would require a greatly expanded program of marketing the Bank's bonds to investors in the world's capital markets.

Pointing out that the Bank must be responsive to shifting needs, Mr. McNamara also indicated his intention to devote greater emphasis to two critical fields: agriculture and education.

In agriculture, he stressed the opportunities presented by the new strains of wheat and rice to increase crop yields dramatically; and to effect significant improvement through the provision of credit, through large-scale irrigation and drainage works, and through the effective use of fertilizers.

In outlining his views on education, he spoke about new technologies -- television, radio, programmed instruction devices -- whereby skilled teachers in a world chronically short of skilled teachers could be made to reach vastly larger numbers of students than would be possible in conventional classroom situations; and he spoke too about the need to make education relevant to national needs and aspirations.

But it was a third field in which he proposed that the Bank become active which plunged this basically staid institution into controversy and made headlines the world over, for Mr. McNamara had quite correctly concluded that the major impediment to improvement in the lot of the individual in the LDCs was their unchecked increase in population. This, of course, was caused by the dramatic reduction in the death rate brought about by the control of malaria, dysentery and other diseases in the early years of organized development -- a fascinating example of how a humanitarian effort, intended to enhance life, can in fact have the opposite effect unless the consequences are fully considered.

Mr. McNamara has the image of an austere man with a computer-like mind. He is far from that; he is in fact a warm human being and an idealist of the highest order. But he also has a healthy respect for figures, and the figures led to logical conclusions.

Although world population totaled only one-quarter billion in the first century AD and required 1650 years to add another quarter billion, it added one billion in the next 200 years; a second billion in the following century and a third billion in the next 30 years. There will be three billion more people by the end of the century.

In terms of the impact of population on economic growth, a simple illustration suffices: take two typical developing countries with similar standards of living, each with a birth rate of 40 per thousand. Estimate what would happen if the birth rate in one of them, in a period of 25 years, were to be halved -- to 20 per thousand, a rate still well above that in most developed countries. By that one act, the country which lowered its population growth would raise its standard of living 40 per cent above the other country in a single generation.

In terms of the gap between rich countries and poor, our studies show that more than anything else it is the population explosion which, by holding back the advancement of the poor, is blowing apart the rich and the poor and widening the already dangerous gap between them.

Furthermore these studies show that this drag of excessive birth rates is quite independent of the density of population. This is something that needs emphasizing in view of the fact that policy makers in some developing countries attach only minor importance to reducing population growth. The argument that some countries need more population to fill their land or accelerate their economic growth is a specious one. There are no vacant lands equipped with roads, schools, houses and the tools of agriculture or industrial employment. Therefore, the people who are to fill those lands, before they can live at even low standards of living, must first eat up a portion of the present scarce supply of capital. This is the burden which defeats a nation's efforts to raise its standard of living by increasing its population.

Faced with these facts, Mr. McNamara then dealt with the question of what action we at the Bank, as a Development Agency, should take to lift this burden from the backs of many of our members. He proposed the following three courses:

First: to let the developing nations know the extent to which rapid population growth slows down their potential development, and why, in consequence, the optimum employment of the world's scarce development funds requires attention to this problem.

Second: to seek opportunities to finance facilities and training required by our member countries to carry out family planning programs.

Third: to join with others in programs of research to determine the most effective methods of family planning and of national administration of population control programs.

This has been a difficult policy for Mr. McNamara to adopt, but I think you will agree that it is a courageous one. It has caused him to be vilified by some politicians and religious leaders in Latin America and elsewhere. However he sees it -- and I am convinced that he is right -- as the only honest course to have taken. So the Bank is now in the population control business; it has already begun to provide technical assistance to one member country in this field, and I expect a great deal of further activity in technical assistance, and perhaps in lending, to follow.

* * * * *

Concerning himself with the future of development, Mr. McNamara also recognized the need for a powerful statement as to where we are to go from here -- a statement based on careful analysis of past successes and failures. To this end, following a suggestion originally advanced by his predecessor, George Woods and by Lady Jackson, he established the Commission on International Development, headed by Lester Pearson, the former Canadian Prime Minister.

Its members -- eight distinguished leaders from as many countries -- have established a staff and are now working on a report which will evaluate the past and suggest a roadmap for the years ahead. Its work we consider to be of the highest importance, and we hope and expect that the Pearson Commission report -- to be delivered early next autumn -- will have far reaching effects on the aid policies to be followed in the future.

To sum up, in assessing Mr. McNamara's first year in office, I would say that he has captured the leadership in World Development; that he has stimulated a great deal of soul searching among the governments of the richer countries, and the poorer, about what must be done. He is well aware that the World Bank cannot by any means do the job alone, but he has put these institutions squarely on the line to do what they can -- to increase very substantially their own commitment to the development effort.

Mr. McNamara is aware that the time is short. If his sense of urgency in acting quickly to meet development needs can be imparted to leaders the world over, there may well be breakthroughs that will confound the pessimists and convert the apathetic. Certainly there is plenty still to be done.