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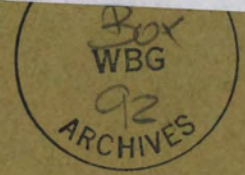
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REID, Escott

RICH LANDS POOR LANDS: RECOLLECTIONS AND REFLECTIONS



This essay was written at the request of the Vice President of India for inclusion in what he called "a volume of reflections ... on the present outlook in human knowledge and achievement." The volume was to have been presented to Mr. Nehru as a tribute on his seventy-fifth birthday, November 14, 1964. Presumably it will now become a memorial volume and may be published earlier. The volume may be called "The Changing World".

While I have sent the essay to New Delhi I expect to have an opportunity to make changes before it goes to press, provided that my changes reach New Delhi by the end of June or early July.

I should be most grateful for suggestions for revision: factual inaccuracies, faulty generalizations, inelegancies of language, etcetera.

World Bank  
1818 H Street, N.W.  
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Escott Reid  
June 2, 1964



RICH LANDS POOR LANDS: RECOLLECTIONS AND REFLECTIONS

ESCOTT REID

RICH LANDS POOR LANDS: RECOLLECTIONS AND REFLECTIONS\*

In the past fifteen years or so the rich lands and the poor lands have been trying to create a working partnership through which the richer help the poorer in their efforts to speed up their economic development. This essay sets forth some personal recollections and reflections on some of the problems of creating and preserving this partnership.

The basis of successful partnership is, of course, mutual understanding among the partners. A person from a rich land can achieve a reasonable degree of understanding of the problems of the poor lands only if he has a compassionate heart and imaginative sympathy. For the seeker after wisdom about the problems of underdevelopment must, if he comes from a rich land, acquire the ability to feel in his bones something of what life is like for a poor man in a poor land and for a political leader in a poor land who must urge the poor man to sacrifice present goods for future hopes. It is difficult to acquire this ability without seeing the poverty of poor lands with one's own eyes.

During the four and a half years that my wife and I were in India, we were fortunate in having many visitors from Canada. Whenever possible, we would take them to see two or three average Indian villages, not the best, the show places, not the worst, just the average. Some of

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\* A note at the end of the essay defines the terms: rich lands, poor lands, middle class lands, international economic aid. The note also indicates the extent of the increase in aid from 1949 to 1964.



these visitors from Canada were experts on the economic problems of India. They knew what the per capita national product of India was; they knew how many calories were in the average diet of the average Indian; they knew how many yards of cloth he used a year; what the statistics were on infant mortality; what was the average expectation of life. They had read about India. They had talked about India to people who had lived there. They had seen movies of India. But - and this is a revealing commentary on our inability to communicate with each other - no matter how much they had studied about India's problems and poverty, when they saw for the first time with their own eyes their first average Indian village, they were shocked by the depth of its poverty. It was so much worse than anything they had ever dreamed of.

Only a comparatively few people from the rich lands can have this kind of opportunity to be shocked into the beginning of an awareness of what life is like for most people in most of the poor lands. Others in the rich lands have the harder task of stretching their imaginations in order to achieve this beginning of understanding.

And what do I mean by a beginning of understanding? I mean chiefly three things. Firstly, a realization of the extent of poverty in the poor lands. Of their total population of thirteen hundred millions, at least three quarters are poverty-stricken. Secondly, a realization of the intensity of this poverty. It is not the kind of poverty which people in rich lands think of when they talk about a war against poverty at home. Most people who are considered poor in the rich lands would be considered well off in the poor lands. Thirdly, a realization that most of the poor of the world are



peasants living on the land, that most of the poor are not white, and that their culture, unlike that of the so-called Western world, is not derived from Western Christendom. All the world's great religions and philosophies unite in affirming that all men are brothers. One of the most encouraging developments since the war is the recognition by an increasing number of the people of the rich lands that they are a small, almost entirely white island of privilege among the vast poverty-stricken majority of the brotherhood of man, which is far different from them in culture, way of livelihood and physical appearance.

This, I call the beginning of understanding of the problem of the relations between rich lands and poor lands. It is the beginning of wisdom about the problems of the economic development of poor lands. It is, of course, only the beginning of wisdom. Again I take my illustrations from India, the country in the underdeveloped world of which my ignorance is least, and a country which constitutes a very large part of the underdeveloped world since it has a population of almost five hundred million.

The Indian peasant is poor. A recognition of his dire poverty is central in any discussion of the problems of economic development in India. But the Indian peasant has many other attributes which are also relevant to these problems of economic development. There is the way he feels about the caste group he belongs to and about other higher or lower caste groups in his village. Because of the way he feels it is difficult for the various caste groups to work together to promote the interests of the whole village.



The village tends to be divided into factions. There is the villager's attitude to the cow and the monkey. Most Hindu villagers consider it a sin to kill either the cow or the monkey and India is plagued by useless cows and destructive monkeys. There is in most Indian villages what most people from rich lands would consider to be undue deference to the traditional ways of the past, whether they are ways of cultivating rice, or sowing wheat, or preparing food or not using latrines.

I remember the first tour my wife and daughter and I made of Indian villages at the beginning of 1953. We spent ten days visiting village after village. We slept in government bungalows on the outskirts of villages. One of the first villages we visited was, we were told, even poorer than the average. On our tour of that village we were shown a rich mango grove and a fertile tomato patch, and we saw that the crop had been mangled the night before by monkeys. In village after village we saw half-starved milk-bearing cows competing for scanty pasture with useless old three-quarter starved cows. We heard stories of feudalistic privilege and oppression.

The natural reaction of the outsider is to conclude that what India should do - if India is to double its agricultural production in a dozen or so years as it must - is to break down its caste system, destroy the useless cows and the destructive monkeys, and eradicate from its villages the hierarchical and feudal traditions.

This is a natural reaction. But I think that the second stage in the acquirement of wisdom about the problems of economic development in underdeveloped peasant countries is a reluctant acceptance of the fact that



changes of this sort cannot be made in a mere decade or two and that to secure badly needed immediate increases in agricultural production it is necessary to work through existing social institutions. Thus if the greybeards dominate a village it is necessary to concentrate on the task of converting the greybeards to using improved seeds, fertilizers, new methods of cultivation and so on. If the villagers won't kill monkeys perhaps they will look the other way if outsiders trap them and kill them far away from the village.

A third stage in the acquirement of wisdom is, I suggest, the realization of why it is necessary that the leaders of the poor lands should have even harder heads than the leaders of the rich lands and why it is harder for the leaders of poor lands to make hard-headed decisions.

Suppose agricultural production in a typical poor land were to go up by five per cent a year. Are the farmers to be allowed to increase their consumption by five per cent a year? They easily could, not by spending their increased income on luxuries, but by spending it only on bare necessities for the growing population in the villages. The farmer and his wife and children could spend the little bit of extra income per head on a little more food, a few more clothes. But if the farmer consumes all the increase in his production, how is the poor land to finance its industrialization programme and feed the fast-growing population of its towns and cities? If there is a five per cent increase in agricultural



production, will it not be necessary for the government to siphon off in one way or another, say, one-quarter or one-third of the returns from that increase in order to finance industrial expansion?

Take another and a different kind of hard choice. A poor country is building a dam to irrigate land which has hitherto had to depend on scanty and irregular rainfall and water drawn from shallow wells. The farmers in the area are poor. They need water badly. It would be possible to distribute the water over 500,000 acres. Every farmer in the area would get some water for his fields. Every farmer would get bigger crops. It would also be possible to do a scientific soil survey and select out of the total area of 500,000 acres the best 250,000 acres and provide water only for those acres. The farmers who farm the other 250,000 acres of poorer land would get no irrigation water. The experts say that by concentrating the water on the best 250,000 acres, instead of spreading it thinly over 500,000, one would get a much bigger increase in the total agricultural production of the area. Indeed the best guess of the experts is that if everybody got a little water the total agricultural production in the whole area would probably increase by about fifty per cent, whereas if the water was used only on the better land agricultural production in the whole area would probably be trebled. But the farmers who own the poorer land, who are for the most part the poorer farmers, would see their richer neighbours get plenty of water while they would get none.



Take a third problem. In the past dozen years or so, agricultural production has been increasing in a typical poor land by about three and a half per cent a year while population has been increasing by about two and a half per cent a year. Virtually everybody who has studied the problem agrees that a one per cent annual increase in agricultural production per head of population is just not good enough. The per head increase should be at least two and a half per cent a year which, at present rates of population growth, would mean doubling agricultural production in about fourteen years. In order to increase production at this rate, farmers must be persuaded to improve their methods of cultivation, to use improved tools, better seeds, more fertilizer. The farmers are conservative. It is difficult to persuade them to change their traditional methods. It has been found that one of the most effective ways of persuading them is to have a trained and experienced agricultural extension worker demonstrate new methods to them on their own farms. It is impossible to have enough skilled agricultural extension workers to deal personally with every farmer. The problem is to pick out the districts and the farmers in those districts who are most receptive to new ideas and to concentrate on them. This is easier said than done. Nevertheless, the only possibility of getting really big increases in agricultural production in the near future is to concentrate on helping the more efficient farmers to produce more and on giving them the incentive to do so. Maybe it is necessary to select out of the more efficient farmers the ones who are the acknowledged leaders of the village because, if they accept new methods, their example is apt to be followed by the other villagers.



But this means that the less efficient farmers, who are for the most part the poorer farmers, would not be helped directly by the government's skilled agricultural extension workers. The immediate beneficiaries of the government's activities would for the most part be the richer farmers.

Faced with this sort of problem, the soft head ruled by the soft heart would always make the soft choice and a poverty-stricken country would never lift itself out of its poverty. The hard head ruled by the soft heart would make something close to the hard choice, would make this choice in sorrow and grief of heart. This is the sad burden borne by the leaders of the governments of the poor lands.

It is a burden which can be borne by compassionate men only if they do their best to reconcile the necessity of increased production with the demands of social justice.

Thus in the last two examples of hard choices the farmers who get the scarce water or the scarce services of skilled agricultural extension workers should not be permitted to retain for their own use the whole of the resulting increase in the value of their farm production. They should be permitted by the government to keep only that proportion which is necessary to provide them with sufficient incentives to use the water efficiently or to change their methods of cultivation to more efficient methods. The rest of the increase in the value of their farm production should be siphoned off by the government by water rates or taxes of one kind or another. Some of the money thus siphoned off can wisely be used by the government to finance a massive rural works programme which could employ the farmers who do not



benefit directly from the new irrigation project or from the services of the agricultural extension workers. The works projects should be of the kind which lead directly to increased agricultural production. They should include contour bunding, desilting of canals and small reservoirs, damming of rivulets and streams, digging of surface wells, tree planting, and other projects for soil conservation and land reclamation.

The inescapable task of an institution like the World Bank is to help the leaders of the governments of the poor lands to shoulder the burden of hard choices. The World Bank helps them with advice. It helps them with loans. But it only helps the governments of those member countries which ask for its help. If a member country asks it to do so, the World Bank will analyze as best it can the costs and benefits of alternative courses of action in respect of a particular project or a particular sector of the economy of the member country. Some of the possible courses of action will be softer than others. The result of the Bank's analysis will be that before a government makes a soft choice it knows the economic cost of making that choice. And by economic cost I do not mean the cost in dollars or rupees or dinars. I mean the cost in terms of a slowing down of the pace of the economic advance of the country.

For in each of the three examples I have given of decisions between hard choices and soft choices, the selection of the soft choice means just that. It means that the economic advance of the country will be slower than it otherwise would have been. There will be less food produced, and thus more hunger. There will be fewer resources available for building more factories, and thus more unemployment.



Rich countries are fully familiar with this kind of problem. It is of the very stuff of politics. The governments of rich countries are constantly having to make decisions on how far they should slow down the material advance of the country as a whole in order to reduce disparities among regions or among social or economic groups or in order to achieve political or cultural objectives. The governments of rich countries are constantly aware that the selection of one alternative over another may mean the loss of several constituencies in the next election. It may even mean the loss of the election.

If a rich country consistently chooses policies which involve sacrificing economic considerations, its rate of economic advance will slow down but it will still have a very high standard of living. In almost all the poor lands the situation is tragically different. In poor lands with rising populations, if governments over a period of time consistently sacrifice economic considerations, the rate of economic advance will fall below the rate of population growth and the people, already poor, will become poorer; the people who now have some hope of a better life for their children will be left without ground for hope.

Thus it is essential for the governments and peoples of the poor lands generally to make something close to the hard choices whereas it is not essential for the rich lands. But at the same time it is much more difficult for a poor land to reject the temptation of soft choices than it is for



a rich land. For the rejection of soft choices so often means holding down increases in consumption by the poor. It so often means putting off doing much to reduce inequalities and inequities among regions and among groups within regions. It so often means sacrificing today's goods to tomorrow's hopes. These are things which it is difficult enough for governments and peoples to do in rich lands. It is much more difficult in poor lands.

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In giving their aid to poor lands, the governments and peoples of rich lands are constantly faced with the necessity of deciding between hard and soft ways. They can provide aid for hard projects or for soft projects. A hard project is one which a careful, expert investigation has shown to be well-conceived, designed and engineered and which is likely to result in increases in production in the poor land which are commensurate with its real economic cost to that country.

A soft project may serve better in the short run the prestige of the government that gives it and of the government that receives it, but its real benefit to the economy of the poor land can be low. A typical soft project is the monumental large dam for irrigation which will not result in much increase in production because it is not accompanied by adequate subsidiary irrigation channels, by adequate grass-roots research on what crops should be grown on the newly irrigated land and what particular variety of seeds should be used, or on how much water should be used at various times of the year for each type of crop on each type of land in



in the area, or by the setting up of effective methods of teaching the farmers how to use the water. Even if the project for the large irrigation dam did not suffer from all these defects, it would be a soft project if it does not yield as big a return in increased production as alternative methods of using the resources which would be required to build the dam and make it effective. Alternative uses of the resources might be making better use of dams already built, or building a number of smaller dams, or digging deep wells, or improving dry farming.

The governments of rich lands can make the soft choice of using their aid to a poor land to build up their own industries for producing capital goods with little regard to whether it is wise for that particular poor land to go in at that time for that particular kind of investment. Or they can make the hard choice of reconciling the building up of their own industries with the long-run economic interests of the poor lands. Thus if steel plants and nuclear power plants are built in the wrong place at the wrong time in the wrong size they will slow down economic development. The expansion of the steel industry in India and in a number of other poor lands has been a wise use of scarce resources but there are at least half a dozen underdeveloped countries whose pace of economic advance has been slowed down in the past fifteen years by building steel plants. They would be farther advanced now if they had spent the money on projects of higher economic priority. There is danger that in the next five or ten years comparable misinvestments will be made by poor lands in nuclear power plants.



A great Western European statesman was talking to me two and a half years ago about the economic development programme of a poor land whose president had just been visiting him. He said: "This country has a very sensible development programme." He paused. "No steel plant." His simplification was the simplification of the political realist. For that country at that time to include a steel plant in its development programme would have been to demonstrate that it was not serious in its efforts to raise the standards of living of its people.

The governments of rich lands can make the soft choice of giving aid to poor lands but of not opening their markets to the goods of the poor lands. They can give a reasonably large proportion of their aid through international agencies, or they can give almost all their aid bilaterally and tie it to the purchase of their own goods and services. When their aid is tied to the purchase of their own goods and services they can turn a blind eye when their contractors and suppliers, not having to meet international competition, charge prices higher than they would on contracts subject to international competitive bidding. Or they can make the hard choice of deciding that, though their bilateral aid will be tied, it will not be given for goods and services which are, say, more than fifteen per cent above world prices.

Then there is the question of the terms of aid. How generous should the terms be? How big should be the element of subsidy in the loans? Should some of the aid be given in the form of outright grants? Here the paradox is that often the hard headed decision is to give the aid on soft terms.

The more hard headed choices the governments and peoples of the rich lands make, the easier it is for the governments and peoples of the poor



lands to make hard headed choices, and the more hard headed choices they make the easier it is for the rich lands to increase their aid.

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When my wife and I arrived in Bombay in November 1952 on our way to Delhi, the Governor of Bombay was Sir Girja Bajpai. Sir Girja was one of the most distinguished of the Indian members of the old Indian Civil Service. He was a scholar in Persian and in Sanskrit. He was an excellent administrator and diplomat. His last post before India became independent was that of India's representative in Washington in 1944 and 1945. I knew him at that time. After independence he became the first head of the Indian Foreign Office. He had recently retired from that post to become Governor of Bombay. He asked us to stay with him overnight before taking the train to Delhi.

I had a long talk with him that night. I pressed him for advice. I shall always remember his advice. He said to me that in his view the ambassadors who were successful in New Delhi were those who approached the problems of India with respectful sympathy.

When Girja Bajpai used that term, respectful sympathy, he may have been thinking of an ancient Indian Sanskrit saying on how one should give to the poor. The great Indian poet and philosopher, Rabindranath Tagore, cited this saying in one of his essays. He was contending that in India the use of wealth had been "subject in the past to the strong pressure of social will." "The donor," he wrote, "had to give with humility; the Sanskrit saying, Sraddhaya deyang, Give with reverence, is significant."\*

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\*Postscript to "Letters from Russia", published in the book, Russiar Chithi, 1931



Those in the rich lands who give advice and money to the poor lands could usefully meditate on this Sanskrit saying: Sraddhaya deyang, give with reverence, give with humility.

And what is the text which those in the poor lands who receive advice and money from the rich lands might usefully meditate on? Tagore, in another of his essays, wrote:

"Man has to win his manhood every day of his life, and the history of every nation is the history of the campaigns it has undertaken to win victory over itself. Man comes into this world to penetrate the impenetrable, and attain the unattainable, and he grows strong and prosperous by removing obstacles from his path. Hence the Sanskrit saying Veerabhogya vasundhara, the world belongs to the valiant. Each nation has a special problem given it by God, and it finds its salvation by solving it rightly." \*

Perhaps the motto of the partnership between rich lands and poor lands should be: Sraddhaya deyang: Veerabhogya vasundhara.

I am not despondent about the future of that partnership. I am hopeful. For that partnership has grown in wisdom and in strength in the past fifteen years and, if men of good will, compassion, imagination, intelligence and energy think hard enough, make hard enough choices, struggle hard enough, I see no good reason why the partnership should not continue to grow in wisdom and in strength.

What is now required is for the rich and poor members of the partnership - and the middle class countries in between - to examine together the extent to which the poor lands have succeeded in the past fifteen years in their war against poverty, disease and ignorance, and why it is they have not been able to accomplish more.

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\* "Rammohan Ray, a Pilgrim of India" (Bharatpathik Rammohan). Pamphlet. 1933.



Poor lands have increased their total production of goods and services in almost exactly the same proportion as the rich lands. This is a great accomplishment. But it does not mean much for the average man, woman or child in the average poor land for their numbers have also been increasing rapidly. While in the rich lands population has increased by only a fifth in fifteen years, in the poor lands it has increased by two-fifths. It seems probable that in most of the poor lands more than half of the increases in production have been absorbed by increases in population.

It is this staggering rate of increase in population which constitutes the greatest single obstacle to substantial improvements in the standards of living of the poor lands. This obstacle is much more serious than we, either in the rich lands or the poor lands, thought fifteen years ago.

There are other important obstacles which are much greater than we had thought. The peasant is harder to move, the skills of public administration and business management are scarcer, the traditions and the social institutions which inhibit progress die harder, the relations between the giver and the receiver of aid are more delicate and complex. It has become increasingly clear that the needs of the poor lands are much greater than we thought fifteen years ago. If the poor lands are to succeed in raising the standards of living of their peoples, they need to curb their population growth. They need to be able to draw on much larger resources. Resources of capital: capital derived from private foreign investors and from foreign governments; capital derived from domestic savings. Resources in terms of



more and better entrepreneurs, engineers, social anthropologists, teachers, administrators, economists; from at home and from abroad. Resources of knowledge, in rich lands and poor lands, of what are the principal obstacles to rapid economic growth, and what are the best ways around those obstacles. Resources of faith and hope in the possibilities of economic and social progress in the poor lands. Resources in terms of a sustained determination by the governments and peoples of rich lands and poor lands to make the achievement of this progress a primary objective of national policy. Resources of political leaders in the poor lands who know that

"Our stability is but balance, and wisdom lies  
in masterful administration of the unforeseen." \*

Rare political skills are needed by the leaders of the poor lands and the rich lands if the partnership of poor lands and rich lands is to succeed. Rare diplomatic skills are needed by the people in poor lands and rich lands who serve the partnership. For the giving and receiving of advice is a delicate and hazardous operation. A country which is not proud is not worth helping.

The giver of advice can usefully remind himself of four things. Firstly, that human judgment is fallible. Secondly, that luck or providence or the unpredictable plays a large role in economic development. Thirdly, that while it is a good thing for poor peoples to have more to eat and to wear, better places to live in, more and better nurses, doctors and teachers, and less illness, it is a better thing for them to have these goods without sacrificing those ancient values of their society which can give them a feeling of belonging to a group, a sense of dignity and the possibility of serenity.

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\* Robert Bridges: "The Testament of Beauty"



The fourth thing which a giver of advice to a poor land can usefully remind himself of is that, even if final truth has been revealed to him, he is not Moses laying down the law from Mount Sinai. He is a partner speaking to a free and equal partner. For him success is measured not by the wisdom of the advice he gives but by how much of his wise advice is accepted. His task is one of persuasion. When he intervenes with advice his "intervention should be in the least abrasive, the least corrosive way possible."\*

The receiver of advice can usefully remind himself that the advice is coming from a free and equal partner in a joint endeavour, that the resources this partner provides come from the savings or taxes of individuals in the rich lands, and that the willingness of these individuals to continue to put up money depends in large part on whether they believe the partnership is achieving what it set out to do. For that reason, the partner giving aid is inevitably concerned with the economic policies of the aid-receiving country and with the use which that country is making of all its resources whether derived from foreign or domestic sources - from private foreign investors, from loans or grants from foreign governments, from taxes, the profits of publicly owned companies or domestic savings. It is the total of resources with which he is concerned, not just the resources from abroad or the use of the aid made available for one particular project.

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\* Abe Fortas referring to intervention by the Supreme Court of the United States in the criminal proceedings of a state in the argument before the Court in the Gideon Case in 1963. Quoted in "The Gideon Case" by Anthony Lewis, in The New Yorker, May 9, 1964, p. 166.



The more clearly it can be demonstrated to the legislatures and peoples of the aid-giving countries that the economic policies are wise and the resources well used, the easier it is for governments and legislatures in the rich lands to resist pressures to transfer part of their aid from the fight against poverty abroad to the fight against pockets of poverty at home. The easier also it is for them to open up their markets to the exports of the poor lands, and to make the other hard choices which face the aid giver. The easier it is for them to increase their aid.

We the peoples of the rich lands and the poor lands have learned much in the last fifteen years from our partnership. We have come increasingly to realize that the partnership can evolve from one between two groups of countries, one rich and aid-giving and one poor and aid-receiving, to a partnership where each as it moves up the ladder of economic and social progress can increase the help which it gives to those below it on the ladder. The poor cannot give much money to the poorer but they can share the benefits of their experience and that experience has often cost them much in sweat and tears. When they pass on the lessons they have learned from their failures and their successes that gift can be of great worth. The countries which have recently succeeded in lifting themselves out of the ranks of the poor into the ranks of what one might call the middle class powers, have an especially important role to play, since their economies and their problems are intermediate between those of the rich and the poor. They can interpret between the two groups. They can transmute the experience of the rich into a form in which it is more easily usable by the poor.



We have learned in the last fifteen years how intimate our partnership must become if we are to succeed in our war against the ancient enemies of man: poverty, disease and ignorance. We realize better each year how important to our children and our children's children is success in the partnership, how rewarding the partnership can be to all who participate in it.

Those of us who have been privileged to serve the partnership by living in a land like India have had opportunities to learn even more. We have learned of the gifts India has to share with the world - the beauty of its landscapes, the courage, dignity, and gaiety of its people, the richness of its culture.

I often think back on the first tour I made of the Indian countryside in February of 1953. My memories are full of colour, of fragrance and of music. The golden glow of the early morning and the late afternoon. The gold of the mustard fields. The fragrance of the flowering fields of peas and of mustard. The sweet smell of boiling sugar cane juice. The tree-lined canal banks. The long shadows of late afternoon and early morning. The bells of the bullock carts. And the gay singing of the villagers heard across the fields during the day or from the villages at night.

I often think of the Rajasthan peasant women whom I used to meet when I walked in the early morning through the streets of New Delhi near the Canadian residence. I see them again walking to their hard work of building the new Delhi. Walking with magnificent carriage in their gaily coloured clothes, chattering, laughing, sometimes singing. These women have become to me a symbol of hope. They come from the heart of India, its villages.



They are those villagers whom Tagore once described as "eternal tenants in an extortionate world, having nothing of their own." But they are not broken by their poverty or their hard work. They go from their shacks to their hard work in dignity and gaiety. And it is the courage, the patience, the dignity and the gaiety of the mass of the people of India which make India rich in spite of its poverty - not just the wisdom of its teachers and saints and scholars, and the beauty of its landscapes, its monuments and its shrines.

The whole world would be impoverished if India, the vessel of an ancient, lovely and living culture, were to dissolve into anarchy or if to save itself from anarchy it were to be false to its traditions of tolerance and humanity. The whole world will be enriched by India's success in its programme of economic and social development. For success will release tremendous latent energies in India, and those energies will produce not only things of the hand but things of the mind and spirit. And what is true of India is true of so many of the poor lands. Today the mind and spirit of the poor lands are cabined, cribbed, confined by their poverty. To release the poor lands from the imprisonment of their poverty will be to enrich the lives of all men everywhere.

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Just before I left India in May 1957 at the end of my assignment as Canadian High Commissioner, I wrote a confidential farewell despatch to Ottawa summing up my impressions of India. The essay concluded with a study of Mr. Nehru. In this study I said:



"He finds it exciting to be the creative, practical politician who prods, pushes, pulls, cajoles, leads, babies India out of the bullock-cart and cow-dung age into the age of jet airplanes and nuclear energy. Because he is the leader of India in a high adventure of national development, he lives in a pleasurable state of whirling, restless activity, a state which he himself has called 'continuous excitement' ... Sometimes I have had the feeling watching Nehru that he is a magician who conjures up a vision of a united, progressive India and that when he passes from the scene the vision will disappear. It is a vision which he conjures up and he does it deliberately. He doesn't do it to mislead the foreigner. He does it because he knows that India can advance only if it can see visions and dream dreams, if it draws on the best in its past, if it breaks with the worst ... He genuinely returns the respect, the adulation and the love of the Indian people for him. ... He loves India in a poetic, almost mystical way. He loves the land of India, and it is a land which is easy to love ... He is enchanted by the great vistas of Indian history. ... He feels for the misery of the people of India. Their misery hurts him. It makes him impatient. It makes him angry."

Much of what I then said about Mr. Nehru describes the happy warrior who serves the partnership between rich lands and poor lands. He is enchanted by the great vistas of the histories of the lands of Asia and Africa and Latin America. He feels for their misery. He is exhilarated by a sense of participation in a high adventure. He sees visions and he dreams dreams.

World Bank,  
Washington  
May, 1964



### Footnote

This essay is concerned with the two-thirds of the world outside the Moscow and Peking groups of countries. The countries in this two-thirds of the world are divided into three groups according to the average income of their inhabitants, that is, their per capita gross national product. The borderlines between poor, middle class and rich lands are arbitrarily set at \$250 and \$750. Poor lands have a per capita G.N.P. of not more than \$250, rich lands at least \$750. Middle class lands are the ones in between. The following examples from Europe indicate where these borderlines run: Turkey and Portugal are just poor enough to fit into the category of poor lands; Greece and Yugoslavia are just well enough off to be middle class; Italy is just well enough off to be a rich land. The per capita G.N.P. of India is \$75, of the United States \$3,000. The total population of the poor lands is 1,300 millions; of the middle class lands 300 millions; of the rich lands 500 millions.

The term economic aid is used to cover the transfer of resources from rich lands to poor lands by loans and grants from governments and includes loans and grants in the form of food and raw materials. Economic aid does not include military support or military aid. Annual figures of aid are commitments less repayments of capital on outstanding loans. When comparisons are made between different years, the comparisons are between dollars of roughly equal purchasing power. The 1949 dollars are converted into 1963-64 dollars.



Footnote - cont'd

In 1963 the total aid from rich lands to poor lands through multi-lateral agencies and through bilateral programmes was more than three times what it had been in 1949: five billion dollars in 1963 compared with a billion and a half in 1949. In 1949 only three or four countries had regular bilateral programmes of economic aid to poor lands. Now more than a dozen countries have such programmes. In 1949 the United States was providing aid at a rate of a billion dollars a year. Now the United States is providing aid at a rate of three and a half billion dollars a year. In 1949 the United Nations Special Fund and the Expanded Programme of Technical Assistance did not exist. The Colombo Plan was established in 1950; the International Finance Corporation in 1956; the International Development Association in 1960; the Inter-American Development Bank in 1960; the Alliance for Progress in 1961. The first United Nations Conference on Trade and Development was held in 1964.



12/9/64 - Mr Reid's Secy says no  
objection to giving out as  
Mr Reid gave to press in Canada  
& it has been written up in papers  
(copy to Paris)

m. *Grass*  
*Thanks*  
October 30, 1964

RICH LANDS POOR LANDS

ESCOTT REID

Speech to the  
Canadian Club,  
Ottawa, Monday,  
November 2, 1964.



*Somplace in  
this or another one  
may be security  
instead of serenity*

The World Bank isn't a world bank. It is a bank for only two-thirds of the world. It doesn't cover the third of the world which is composed of the Soviet group of countries and the Peking group.

The World Bank isn't a bank. It is a development fund. It and its associated bodies are lending about a billion and a quarter dollars a year mainly to under-developed countries to help finance construction of projects which have been carefully investigated by the Bank.

It lends on hard terms and on soft terms. When it lends on hard terms it calls itself the World Bank. When it lends on soft terms it calls itself the International Development Association.

But whether it lends on hard terms or on soft terms it lends only for hard projects -- projects which are as economical as possible, which are carefully engineered, and which have a high economic priority.

The billion dollars a year which the World Bank lends come partly from the subscriptions of its hundred member governments; partly from its bonds which it sells mainly in the capital markets of North America and Western Europe; and partly from its accumulated earnings which now amount to about 800 million dollars.

The 300 million dollars a year which the International Development Association lends comes from the contributions of its wealthier member governments plus fifty million dollars this year from Bank profits.

My main conclusion about the World Bank, after two years with it, is that, though it goes in only for hard projects, it is not run by hard-hearted bankers. Indeed, my conclusion is that it is run by people with soft hearts -- but with hard heads.

It is in my opinion this combination of hard heads and soft hearts in the rich countries and in the poor countries and in the middle class countries in between which can eventually make the poor lands richer.



The combination of hard heads and soft hearts is unfortunately not too common in this world. What is more common is the combination of soft heads and hard hearts. Or soft heads and soft hearts. Or hard heads and hard hearts.

May I say something from my experience in India of why I believe that it is only those with soft hearts and hard heads who can eventually make the poor lands richer. My belief is that it is only they who are capable of understanding the problems of the poor lands and therefore capable of helping the leaders of the poor lands who are capable of being helped -- those leaders who likewise have soft hearts and hard heads.

During the four and a half years that my wife and I were in India, we were fortunate in having many distinguished visitors from Canada. Whenever possible, we would try to take them to see two or three average Indian villages -- not the best, the show places; not the worst, just the average.

Some of these visitors from Canada were experts on the economic problems of India. They knew what the per capita national product of India was; they knew how many calories were in the usual diet of the average Indian; they knew how many yards of cloth he used a year; what the statistics were on infant mortality; what was the average expectation of life.

They had read about India. They had talked about India to people who had lived there. They had seen movies of India. But -- and this is a revealing commentary on our inability to communicate with each other -- no matter how much they had studied about India's problems and poverty, when they saw for the first time with their own eyes their first average Indian village, they were shocked by the depth of its poverty. It was so much worse than anything they had ever dreamed of.

Only a comparatively few people from the rich lands can have this kind of opportunity to be shocked into the beginning of an awareness of what life is like for most people in most of the poor lands -- and that means two out of every three men, women and children in the world.

Others in the rich lands have the harder task of stretching their imaginations in order to achieve this beginning of understanding.

And what do I mean by a beginning of understanding? I mean chiefly four things.

First of all, a realization of the extent of poverty in the world. Two out of three people in the world are poverty-stricken.

Secondly, a realization of the intensity of this poverty. It is not the kind of poverty which we think of in North America when we talk about a war against poverty at home. Most people whom we consider



poor in North America would be considered well off in the poor lands.

Thirdly, a realization that most of the poor in the world are peasants living on the land and that the peasant is the key to the success of development programs in the great majority of poor countries.

Fourthly, a realization that most of the poor of the world are not white, and that their culture, unlike that of the so-called Western world, is not derived from Western Christendom.

I do not think that there is one of the world's great religions or philosophies which does not have at the core of its doctrine the affirmation, All men are brothers.

I believe that one of the most significant advances in thinking in the North Atlantic Community since the war is the increased recognition by us that our brothers are mostly poverty-stricken, mostly colored, mostly non-Christian, mostly peasants, and that we white Westerners belong to a very small privileged minority.

This, I call the beginning of understanding of the problem of the relations between rich lands and poor lands. It is the beginning of wisdom about the problems of the economic development of under-developed countries.

It is, of course, only the beginning of wisdom.

Again, may I take my illustrations from India,\* the country in the under-developed world which I know best -- and a country which constitutes a very large part of the under-developed world since it has a population of almost 500 million.

The Indian peasant is poor. A recognition of his dire poverty is central in any discussion of the problems of economic development in India. But the Indian peasant has many other attributes which are also relevant to these problems of economic development.

There is the way he feels about the caste group he belongs to and about other higher or lower caste groups in his village. Because of the way he feels it is difficult for the various caste groups to work together to promote the interests of the whole village. The village tends to be divided into factions.

There is the villagers' attitude to the cow and the monkey. Most Hindu villagers consider it a sin to kill either the cow or the monkey and India is plagued by useless cows and destructive monkeys.

There is in most Indian villages what we would consider to be undue deference to social superiors, to those in authority and to the greybeards of the village. There is also what most of us would consider to be undue deference to the traditional ways of the past --



whether they are ways of cultivating rice, or sowing wheat, or preparing food or not using latrines.

I remember the first tour my wife and daughter and I made of Indian villages at the beginning of 1953. We visited a rich mango grove and a fertile tomato patch in a poor village, and we saw that the crop had been mangled the night before by monkeys. We saw half starved milk-bearing cows competing for scanty pasture with useless old three-quarter starved cows. We heard stories of feudalistic privilege and oppression.

The natural reaction of the outsider, whether Indian or Western, is to conclude that what India should do -- if India is to double its agricultural production in fifteen years as it must -- is to break down its caste system, destroy the useless cows and the destructive monkeys, and eradicate from its villages the hierarchical and feudal traditions.

This is a natural reaction. But I think that the second stage in the acquirement of wisdom about the problems of economic development in under-developed peasant countries is an acceptance of the fact that changes of this sort cannot be made in a mere decade or two and that to secure badly needed immediate increases in food production it is necessary to work through existing social institutions. Thus if the greybeards dominate a village it is necessary to concentrate on the task of converting the greybeards to using improved seeds, fertilizers, new methods of cultivation and so on. If the villagers won't kill monkeys perhaps they will look the other way if outsiders trap them and take them away to be killed far away from the village.

I have said enough to indicate why I think that under-developed countries need to have leaders with soft hearts and why their friends from abroad must have soft hearts. It is, I have suggested, only those with soft hearts who can comprehend the problems of poverty. It is only they, the compassionate, who will persist in the struggle against poverty in face of repeated discouragements and failures.

Now why is it that the leaders of the poor lands must have even harder heads than the leaders of rich lands such as Canada?

I know of a poor country which is building a dam to irrigate land which has hitherto had to depend on scanty and irregular rainfall and water drawn from shallow wells. The peasants are poor. They need water badly. It would be possible to distribute the water over 500,000 acres. Every peasant in the area would get some water for his fields. Every peasant would get bigger crops.



It would also be possible to do a scientific soil survey and select out of the total area of 500,000 acres the best 250,000 and provide water only for those acres. The peasants who farm the other 250,000 acres of poorer land would get no irrigation water. The experts say that by concentrating the water on the best 250,000 acres instead of spreading it thinly over 500,000 one would get a much bigger increase in the total agricultural production of the area. The best estimate of the experts is that if everybody got a little water the total agricultural production in the whole area would probably increase by about 50 percent, whereas if the water was used only on the better land agricultural production in the whole area would probably be trebled.

But the peasants who own the poorer land, who are for the most part the poorer peasants, would see their richer neighbours get plenty of water while they would get none.

Take another problem. In the past dozen years or so, agricultural production has been increasing in India by about 3-1/2 percent a year while population has been increasing by about 2-1/2 percent a year. Everybody in India who has studied the problem agrees that a one percent annual increase in food production per head of population is just not good enough. The per head increase should be at least 2-1/2 percent a year which, at present rates of population growth, would mean doubling agricultural production in about 15 years.

In order to increase production at this rate, farmers must be persuaded to improve their methods of cultivation, to use improved tools, better seeds, more fertilizer. The problem is to pick out the districts, and the farmers in those districts, who are most receptive to new ideas and to concentrate on them. This is easier said than done. Nevertheless, the only possibility of getting really big increases in agricultural production in India in the near future is to concentrate on helping the more efficient farmers to produce more and giving them the incentive to do so.

Maybe you have to select out of the more efficient farmers the ones who are the acknowledged leaders of the village because if they accept new methods their example is apt to be followed by the other villagers.

But if the efforts of the Government's agricultural services are concentrated on the more efficient farmers, you will be doing nothing directly for the great majority of the farmers and they for the most part are the poorer farmers. The immediate beneficiaries of the Government's activities would for the most part be the richer farmers.



Faced with this sort of problem, the soft head ruled by the soft heart would always make the soft choice and a poverty stricken country would never lift itself out of its poverty.

The soft heart ruled by the hard head would make something close to the hard choice -- would make this choice in sorrow and grief of heart. This is the sad burden borne by the leaders of the governments of the poor countries.

And the inescapable task of an institution like the World Bank is to help the governments of under-developed countries shoulder the burden of hard choices. The World Bank helps them with loans. It helps them with advice. It helps them by giving them loans for hard projects and refusing loans for soft projects. It helps them by refusing to give them loans if they are not taking adequate steps to mobilize their own internal domestic resources for development.

But it only helps the governments of those member countries which ask for its help. If a member country asks it to do so, the World Bank will analyze as best it can the costs and benefits of alternative courses of action in respect of a particular project or a particular sector of the economy of the member country. Some of the possible courses of action will be softer than others. The result of the Bank's analysis will be that before a government makes a soft choice it knows the economic cost of making that choice. And by economic cost I do not mean the cost in dollars or rupees or dinars. I mean the cost in terms of slowing down the pace of the economic advance of the country.

For in each of the two examples I have given of decisions between hard choices and soft choices, the selection of the soft choice means just that. It means that the economic advance of the country will be slower than it otherwise would have been. There will be less food produced, and thus more hunger. There will be fewer resources available for building more factories, and thus more unemployment.

In a rich country such as Canada, we are fully familiar with this kind of problem. It is the very stuff of politics. The governments of rich countries are constantly having to make decisions on how far they should slow down the material advance of the country as a whole in order to reduce disparities among regions or among social or economic groups, or in order to achieve political or cultural objectives. The governments of rich countries are constantly aware that the selection of one alternative rather than another may mean the loss of several constituencies in the next election. It may even mean the loss of the election.



In Canada, if governments over a period of time consistently make the soft choices, our pace of economic advance will slow down. But we will still have a very high standard of living.

In almost all the poor lands the situation is tragically different. In poor lands with rising populations, if governments over a period of time consistently sacrifice economic considerations, the rate of economic advance will fall below the rate of population growth -- and the people, already poor, will become poorer; the people who now have some hope for a better life for their children will be left without ground for hope.

Thus, it is essential for the governments and peoples of the poor lands generally to make something close to the hard choices, whereas it isn't essential for the rich lands. But at the same time, it is much more difficult for a poor land to reject the temptation of soft choices than it is for a rich land. For the rejection of soft choices so often means in so many countries holding down increases in consumption by the poor. It so often means putting off doing much to reduce inequalities and inequities among regions and among groups within regions. It so often means sacrificing today's goods to tomorrow's hopes. These are things which it is difficult enough for governments and peoples to do in rich lands. It is much more difficult in poor lands.

I returned to Washington ten days ago from a trip around the world. I was at the Annual Meeting of the World Bank in Tokyo. Afterwards I spent a month in East Pakistan and India. I saw parts of these countries I had not seen before. I revisited places which I know and love. I revisited places which I know and ~~love~~ *which grieve me.*

I saw old friends and I talked to them about the successes and failures of their country's development programs, about their hopes and fears for their country. I talked to Cabinet Ministers and officials about prospective lending by the Bank.

There were naturally things which encouraged me and things which discouraged me. I went once again through the slums of Calcutta and saw worse sights than I had seen before. I was appalled by the misery and degradation.

But I was encouraged by the progress which had been made in the eighteen months since my last visit in organizing a workable program to relieve the misery of the poor of Calcutta and to make Calcutta a more efficient industrial and commercial city.



I was depressed by a village I selected at random to look at while driving between two cities in central India. The only sign of change in the village was a water tap which had been installed three years ago to provide the villagers with clean drinking water. But the tap had been out of order for nine months. And the senior Indian official who was with me told me that most of the villages in that province were still sunk in misery and apathy.

I was encouraged by talks I had with people who were working on agricultural improvement in a district in the Punjab, with the help of the Ford Foundation. It looked as if they were identifying at least some of the major errors of previous abortive schemes to increase agricultural production.

In Delhi I found Cabinet Ministers and officials and businessmen struggling with mounting problems -- in particular rising food prices and actual food shortages. When I was there the Cabinet was being faced with the necessity to make hard-headed, politically difficult decisions on the size and shape of the next Five-Year Plan.

In the midst of discussions about loans and studies and consultants and advice I found myself thinking of a statement by the great Indian poet and philosopher, Rabindranath Tagore, in one of his essays. In this essay he was contending that in India in the past the use of wealth had been subject to what he called "the strong pressure of social will". "The donor," he wrote, "had to give with humility; the Sanskrit saying 'Sradhdhaya Deyang', Give with reverence, is significant."

So I end my talk with that saying. It is, I suggest, a saying which those of us in the rich lands who give advice and money to the poor lands can usefully meditate on. "Sradhdhaya Deyang", give with reverence, give with humility.



*Return to D Chasom - 461*



THE OPERATIONS OF THE WORLD BANK

Lecture at Economics Department of the University of Toronto, March 23, 1965

by

Escott Reid

Director of the South Asia and Middle East Department of the World Bank, 1962-65



## INTRODUCTION

I am glad that Professor Triantis invited me to talk to you about the operations of the World Bank because it has forced me to try to sort out my thoughts about the World Bank and to generalize from my participation in its work during the past three years. I am by no means satisfied with the kind of analysis which I shall put before you this morning. It does not cover all the aspects of the work of the Bank.

It does not go deep enough into the aspects it does touch on. But preparing the analysis has helped me to understand better the work of the Bank and I hope that listening to it will help fill in gaps in your knowledge. Please do not however assume that what I say today constitutes my final assessment. Ask me for my more considered assessment a year or so from now when I shall be able to see the work of the Bank in better perspective--and when I shall also be able to talk to you gowned with the dignity of a professor of political science!



You may remember Roy Harrod's account in his life of Maynard Keynes of the speech which Keynes gave, as the first British Governor of the two institutions, at the opening of the first meeting of the International Monetary Fund and the International Bank for Reconstruction and Development at Savannah, Georgia, in March, 1946, nineteen years ago. These twin institutions had been founded at the Bretton Woods Conference in the summer of 1944.

When it was Keynes' turn to speak, he said:

"....it is a privilege I would not have readily forgone to be present at the hour of birth, in some capacity whether as Governor or governess, along with the midwives, nurses, doctors and parsons ready to christen (and I shall always hold to the view that the christening has been badly done and that the names of the twins should have been reversed)." (Harrod: p.631)

So far as the World Bank is concerned, Keynes was right. The World Bank is not a bank. It is a fund--a development fund--or a bond investment trust.



One interesting subject of speculation is why two institutions were set up at Bretton Woods. Why not just one which would have performed the two functions? And might it not have been better if only one had been set up? The possibility of having only one was considered in the inter-departmental discussions within the United States administration in 1942 and 1943. "The suggestion was rejected, however, in the belief that the functions of the two institutions were distinct and that they would require different types of personnel." (Department of State Bulletin, Nov. 13, 1950, Developing Plans for an International Monetary Fund and a World Bank.)

I know of at least one leading authority on both institutions who is now firmly of the opinion that the decision to split the two functions was a mistake--but that it is now too late to remedy that mistake.

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Before I start talking about the operations of the World Bank, I shall need to define some terms.

The term, World Bank, is used in two senses. In one sense, it means the World Bank proper, the parent institution which was conceived at the Bretton Woods Conference in 1944. In another sense, it means the World Bank group of institutions which includes the two offspring of the World Bank, the International Finance Corporation (I.F.C.), founded in 1956 to provide funds for industry in the underdeveloped countries without government guarantee, and the International Development Association (I.D.A.), founded in 1960 to provide loans on soft terms. When the context does not make clear in which sense I am using the term, I shall say the World Bank proper or the World Bank group.

The World Bank proper grants loans at conventional rates of interest. The average duration is between twenty and twenty-five years. Repayments of principal usually begin after three or four years of grace. The Bank's interest rate has usually been about 1-1/4 per cent above the average rate at which it can borrow. For the past three years the Bank has been charging its borrowers 5-1/2 per cent. This rate is being maintained for the poor underdeveloped countries, but countries such as Italy are now going to be charged up to 6-1/2 per cent.



The International Development Association grants loans which are repayable over fifty years, are free of interest, and carry only a 3/4 of 1 per cent annual service charge. No principal repayments are made for the first ten years; 1 per cent a year is paid for the next ten years; and 3 per cent for the final thirty years.

There is no difference in the type of project for which the Bank and IDA make loans. The projects must be hard: that is, well prepared and of high economic priority. The only difference is in the cost of the loan to the borrower. The International Finance Corporation invests in private industry.

If I should use the term rich countries and poor countries in this talk, I include among rich countries those which are comparatively rich, that is all countries which have a per capita gross national product of at least \$750 a year. Under this definition Italy just qualifies as a rich country. By poor countries I mean those whose per capita G.N.P. is not more than \$250 a year. The countries in between I call middle class countries. Greece and Yugoslavia are middle class countries.



I shall deal in my talk only with the countries which are members of the World Bank. For the World Bank is not only not a bank but it is not a world institution. Both words in its short title are wrong. The World Bank is not a world institution because it does not cover the one-third of the world comprised of the Soviet group of countries and the Peking group. The World Bank is a development fund for two-thirds of the world.

In that two-thirds of the world the poor countries have a population of 1,300 million, the middle class countries 300 million, the rich countries 500 million.

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There are three things I want to do in my talk this morning. The first is to discuss a number of possible ways of testing how far the World Bank has been successful in its primary task of helping underdeveloped countries speed up their economic development. The second, why the World Bank has not been more successful. The third, what sort of measures might be taken so that the World Bank could do more in future to help the poor countries.

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The Success of the World Bank

It has been said that the World Bank, meaning the World Bank proper, has been successful because it makes money unlike other international institutions which are constantly begging governments for money. The World Bank has indeed made so much money that its reserves, which have been created by the transfer of its earnings, now total \$900 million. Last year its income of \$250 million was more than double its expenses. But it would be difficult for the World Bank not to make money since it possesses rent-free capital provided by governments to the value of \$1.7 billion and \$900 million of rent-free money in its reserves. Merely by placing this money out at 4-1/2 per cent interest, it could secure about \$120 million a year in income, and that is just about the difference between its income and its expenses.



It is contended by some that the World Bank is successful because it has had no bad debts. It is true that it has had no defaults on its \$8.5 billion of loans.

But perhaps it can be argued that if a development fund like the World Bank has had no defaults on its loans, this is conclusive proof that it is not doing its job since a development fund ought to be prepared to take calculated risks on its loans. And, the argument continues, if you do take calculated risks, you are bound to have some defaults. I have a feeling that this is the line which Keynes would take. According to Harrod, the biggest question at issue in the discussions at the Bretton Woods Conference on the proposed World Bank "was never fully discussed, namely, whether the Bank should be a sound conservative institution on normal lines, or depart from orthodox caution in the direction of greater venturesomeness. Keynes", Harrod goes on to say, "had a dictum that the Bank would not have discharged its duty if it had not dissipated its assets within ten years;...." (Harrod, p. 580).



I am not convinced of the applicability to the World Bank of the thesis that if it has not had defaults on its loans it is not venturesome enough. The involvement of the World Bank proper in India will be a billion dollars by next year. (By involvement, I mean loans less repayments.) India has not defaulted on any of those loans. But I think, nevertheless, that the Bank has been venturesome in investing a billion dollars in India.

For the rate of default does not provide a useful test of the venturesomeness of an institution like the World Bank.

The association between the World Bank group and its customers, who are also its members, is a continuing association. The World Bank does not deliberately go in for one-shot operations. If it makes one loan to a country, it expects to follow that up in due course with other loans. If the country is particularly poor and its record of economic performance is good, the hard Bank loans may be supplemented by soft IDA loans. Certainly a country would be acting contrary to its own interests if it were to default on a Bank loan as long as it could reasonably expect that the flow of resources to it



from new Bank and IDA loans is likely to be greater than the cost to it of servicing old Bank loans, for if it defaults on one Bank loan it cuts itself off from receiving new Bank and IDA loans.

A third consideration which is often advanced to demonstrate that the World Bank has been successful is that it has been able to sell on the international capital markets of the world eighty-three issues of its bonds to a total value of \$4.5 billion, and that it has recently been paying for this money only, on the average, about a quarter per cent higher interest rate than the United States Government has had to pay. Undoubtedly one reason the Bank has been able to do this is that it has built up a reputation as a soundly managed institution which is a prudent lender and has steady earnings. The other, and main, reason is, of course, that the bonds of the World Bank are guaranteed up to a total of almost six billion dollars (\$5,715 million) by the United States, almost two and one-half billion (\$2,345 million) by Great Britain, almost a billion dollars each (\$945 million), by France and Germany, almost seven hundred million (\$675 million) by Canada, and so on.



All the guarantees are independent of each other. A failure of one or more members to make payment on their guarantees does not excuse any other member from its obligation to make payment.

These are powerful guarantees by powerful countries. The guarantees of the United States, Great Britain, France, Germany and Canada alone total over ten billion dollars, almost four times the existing funded debt of the Bank. If the World Bank were to double its present outstanding debt of \$2,700 million, this would still amount to less than the United States guarantee alone.

Thus I do not think that the mere ability of the World Bank to sell its bonds at only a little above the interest rate payable on United States Government bonds constitutes much of a proof of the success of the Bank.

In my opinion, the most significant test of the success of the World Bank group is the extent to which the loans they have made have helped to speed up the economic



development of poor countries. The Bank and IDA have between them made 475 loans totalling \$9.5 billion. My guess is that about half those loans have been to poor countries, and I am pretty sure that almost all the projects which have been financed out of those loans have turned out to be pretty good projects.

The main reason for this is that the loans were granted only after the most careful investigation by the Bank of the proposed project--an investigation which to many borrowers seems too meticulously painstaking, too slow, too cautious, too conservative. The Bank group will not lend to a project until it is convinced that the project is well-conceived and well-designed, that it is going to be well-constructed and well-managed and that it will yield a high real rate of economic return.

Probably three-quarters or more of the time and energy of the Bank group is spent on appraising projects, and on following up on their execution. The basis for the negotiation of a loan is the report of the Bank's appraisal mission on the project for which the loan is desired.



It is the care which the Bank group takes over the appraisal, negotiation, and supervision of each project, which has resulted in almost all the projects it finances turning out to be pretty good projects. One can put this another way by saying that the Bank's record is good because it has refused to lend for projects which it considers are badly engineered or of low economic priority or likely to be badly managed.

Actually the Bank can claim more merit than this. As a result of long, patient investigation, discussion and negotiation, it has persuaded countries to so modify projects--sometimes out of all recognition--that they become projects which the Bank can lend to.

This care which the Bank takes over the appraisal of projects means that the Bank is seldom likely to make the mistake of lending to a poor project. But the cost of this caution is, of course, that the Bank may turn down some first-rate projects, which do not seem to meet fully its orthodox criteria. Another hidden cost of caution is that it takes a long time for a project to move along the Bank's conveyor belt, and the real economic cost of delay is often very great.



The second reason I would give for saying that the World Bank has on the whole been a success is that the advice which it has given over the years to the governments of developing countries on general economic, financial and development policies has generally been sensible and has been put sensibly. When I say that it has been put sensibly, I mean that it has been put in the way best calculated to ease the task of acceptance by the national government concerned.

Indeed, one of the great contributions which the World Bank has made has been to demonstrate that it is easier for an international institution to give wise, unpalatable advice to underdeveloped countries on problems of economic development than for national governments to give such advice and that it is easier for underdeveloped countries to take the advice of an international agency than that of a national government. The reasons are obvious.

Then, too, the Bank has demonstrated a healthy capacity to grow and to adapt itself to changing conditions. One sign of growth was the establishment of the International Development Association in 1960, when it became increasingly clear that a



considerable number of the poorer developing countries would not be able to go ahead with first-class projects because they were not in a position to carry the burden of additional foreign debt on conventional terms. Another sign of the capacity of the Bank to develop is the stimulus and assistance which it has given to the creation of national industrial development banks. The Bank has stimulated the setting up of development banks in eighteen countries and has used them as wholesalers for passing on Bank money for private industrial development. The Bank is now doing the same sort of thing for agricultural development banks and agricultural credit institutions. The Bank has increasingly in recent years been putting more emphasis on loans for agriculture and for education. In order to increase wise lending for agriculture and education, the Bank has made partnership agreements with F.A.O. and Unesco under which these institutions assist the less developed countries to identify and prepare agricultural and educational projects for Bank or IDA financing. These agreements establish a healthy new pattern in the development of international institutions.



The Limitations on the Success of the World Bank

If the group of World Bank institutions is to increase its usefulness, it is necessary to realize why it has not been more successful.

One principal limitation on its usefulness is that it is understaffed. It has not been able to attract enough first-class people to serve in it. Its especially pressing need is for first-class engineers and economists to help appraise projects and to check that they are being constructed and managed properly, to appraise the economic conditions and prospects of a country which is applying for loans, and, in company with other experts, to appraise sectors of a national economy.

It is these very people who are most in demand in the rich, developed countries and the good ones can command large salaries. Moreover, many of the best potential candidates in Western Europe do not relish the idea of living in Washington and bringing up their children there. They consider Paris, London, Rome, as more exciting, more pleasant places to live in, or places where, in any event, they and, even more so, their wives, are happier and feel more at home. Many Western Europeans who do come to the Bank do not stay long.



A second serious limitation on the usefulness of the Bank group is that not enough people in the world think of the World Bank as "our bank". Too many people think of it as somebody else's bank. Too many British think of it as an American bank--that is, a United States bank. Too many Western Europeans think of it as an Anglo-American bank. Too many people in the poor countries think of it as a bank run by the rich countries.

In the early years of the Bank, this was probably inevitable. As Harrod puts it in his life of Keynes (p. 579), "The International Monetary Fund and the International Bank were the product of English and American brains, with valuable assistance from the Canadians." It was decided that the headquarters should be in the United States, and that the Bank should have an American President since it would have to borrow in Wall Street and it was therefore "essential that Wall Street should have complete confidence in the management of the Bank." (Harrod, p. 529).



It is still inevitable that the United States should have a special position in the Bank. It is much the largest shareholder. It holds thirty per cent of the shares of the Bank whereas the next largest shareholder, Great Britain, holds only twelve per cent, and France and Germany each hold only five per cent. Of the Bank's total funded debt of about \$2,700 million, over forty per cent is held in the United States. The United States provides over forty per cent of the funds for IDA.

It is likewise inevitable that the governments of the half dozen or so richest members of the Bank should have a special say on questions of general policy in the World Bank group of institutions for they--out of the taxes levied by their legislatures on their peoples--provide most of the funds for IDA. Eight of them--the United States, Great Britain, Germany, France, Canada, Japan, Italy and Australia--provide ninety per cent of those funds.

But while it has been inevitable that the richer countries should have a special position in the World Bank group of institutions it has not been inevitable that the Bank should have had so marked an American or Anglo-American flavor.



It has also been unfortunate that it has not been able to include on its professional staff more people from the poor countries and more people who have lived long enough in the poor countries to feel in their bones something of what life is like for a poor man in a poor country and for a political leader in a poor country who must urge the poor man to sacrifice present goods for future hopes. The professional staff which now numbers over five hundred does include sixty-five nationalities but the middle and senior ranks are predominantly Anglo-American.

The Bank is trying hard to rectify this. The main source of recruitment for the staff of the Bank group of institutions is now through a junior professional program. Under this program, about thirty exceptionally able young men and women from about twenty-four to thirty years of age are taken on every year for two years of intensive training, after which they are offered permanent appointments on the staff of the Bank. A special effort is being made to recruit people from Western Europe and from the underdeveloped world. Of the 51 so far chosen, only 3 are citizens of the United States, and only 4 are citizens of Great Britain; 28 are from Western Europe, and 16 from underdeveloped countries. But even though the staff of the Bank group of institutions will probably be increasing by a hundred officers a year for some years, it will be many years before the middle and senior ranks cease to be predominantly Anglo-American.



This makes it difficult for the Bank to appear to be as objective as it in fact is. And as Keynes said nineteen years ago at Savannah, if the Fund and the Bank "are to win the full confidence of the suspicious world, it must not only be, but appear, that their approach to every problem is absolutely objective and oecumenical, without prejudice or favour." (Harrod, p. 632).

A third serious limitation on the usefulness of the Bank group of institutions is, of course, the gaps in the knowledge available about underdeveloped countries, the bluntness of the tools of economic analysis, the differences of opinion among experts about the probable answers to the riddle of economic growth.



One of the best known examples of a gap in knowledge which was serious for the country concerned and for outside agencies trying to assist it to analyze its problems was India's gross error at the beginning of its five-year planning in estimating its rate of population growth.

The Indian First Five-Year Plan was published in December 1952. At that time the population of India was 362 million. (357 million in 1951 census plus 5 million for areas not included in the census.) The rate of population growth over the next generation was assumed in the First Five-Year Plan, "as a first approximation" to be 1-1/4 per cent a year. This, the planners said, meant a population in twenty-five years' time, 1977, of the order of 500 million. Actually the figure of 500 million will be reached by the end of this year; that is, in thirteen years not twenty-five years. Now the best estimate of the population of India in 1977 is 650 million.

Then there is the bluntness of the tools of economic analysis.



Take, for example, the discount technique used in comparing the real economic returns of various projects. If comparisons between projects are to be meaningful, the timing of costs and benefits must be put on a uniform basis. In order to do this, the "streams" of costs and benefits attributable to a project over its useful life have to be discounted to their present value. The interest rate used for this calculation is the rate which represents the real cost of capital in the country concerned. The rate chosen is crucial. But the tools of economic analysis are so blunt that the experts have to emphasize how great the uncertainty is about what the real cost of capital is in any given case.

Thus, one group of experts last year used 12 per cent in comparing the real economic returns of various investments in transport in India. Another group this year used 8 per cent in comparing the returns of various schemes for damming the Indus River in West Pakistan. Both groups emphasized that these estimates of the real cost of capital were subject to wide margins of error.



And the concept of the real cost of capital is only one of the concepts which have to be used in making valid comparisons between projects or between methods of constructing a project.

Thus, the Indian authorities in about 1950 had to decide whether to build the Canada Dam in West Bengal mainly by hand labor or mainly by heavy machinery. If they had asked the World Bank to give an opinion, it would have had to use not only the concept of the real cost of capital in India but also the concepts of the real costs to India of unemployed or under-employed peasant labor and of foreign exchange. And on these concepts, too, the experts emphasize how great the uncertainty is.

Thus, when the World Bank or any other group of experts reports to a government on the comparative costs and benefits of various projects or of various ways of constructing a project, they must admit the possibility of a wide margin of error in their estimates. This limits their usefulness to governments which are faced with difficult decisions, and which have to take into account not only economic factors but also political and social factors.



I suggest that another limitation on the usefulness of the Bank or, indeed, of any agency which is called upon to give advice to poor countries on their economic development, is the difficulty which some economists have of putting their advice on these delicate and strategic choices before governments not as, "This alternative is clearly better than that" but rather, "If you choose this alternative you will slow down your rate of economic growth." For the economist has, of course, no right to assume that, even in the poorest countries, the only sensible objective of national policy is the quickest possible rise in the gross national product.

I sometimes wonder how useful, for example, a World Bank report would have been to Canadian Governments in the 1870's when they were faced with the question of building a transcontinental railway. I assume that an economic analysis based on discounting the streams of costs and benefits attributable to the project over its useful life would have demonstrated pretty conclusively that the real economic return on the investment in the railway would be very low; and that the rate of economic growth of Canada over the next decade or so would be a good deal higher if the resources which would be required to construct the railway were put into quicker and higher-yielding projects.



But what no expert appraisal mission would have had any competence to judge was whether or not it would be wise for the Government and people of Canada to decide to slow down the rate of economic growth of the nation in order to increase the chances that that nation would endure.

Perhaps experts on the economic history of Canada could pursue this trail. How much wiser might the economic policy of Canada have been from, say, 1867 to 1914, if the World Bank had existed, and if Canada had been one of the constant, large borrowers from the Bank?

Another limitation on the usefulness of the Bank is the difficulty which many expert advisers have of realizing that the Bank is judged not by the wisdom of the advice it gives but by how much of its wise advice is accepted, and that advice should therefore be given in the least corrosive, the least abrasive, way possible. The capacity to give advice in this way is rare. First-class international diplomats of development are even rarer than first-class national diplomats. This constitutes another limitation on the usefulness of the Bank.

My final item in my list of limitations on the usefulness of the Bank group of institutions is the limitation on the funds available to IDA.



The Bank itself has been able to borrow all the funds it has needed to supplement its other resources at a price only a little above the price the United States Government pays for its borrowings. The result has been that the Bank has been able, and is now able, to lend for every project it considers economically viable in countries which it considers creditworthy.

Until IDA was founded, the Bank did not have to beg for money from governments the way most international institutions do. It had been endowed by governments and consequently was independent of them. This is the great advantage of endowments; they promote autonomy and independence. But when IDA was founded, the Bank had to join the long queue of agencies and institutions which ask national governments for grants. This has made the Bank dependent, as it had not been before, on the good will of the governments which are the major contributors to IDA. These governments started off five years ago by giving IDA \$150 million a year. Two years ago they increased that to \$250 million a year. Next year it is hoped they will be prepared to increase their contributions further for the poor, deserving, developing countries need much more aid on soft terms than they are now getting.



Future Development of World Bank

The leaders of the poor developing countries also need more help in resisting the temptation to put their scarce resources into projects which have prestige value but which have a low yield, one well below the real cost of capital to them. Their neighbors have a steel plant, why shouldn't they? Their neighbors have a nuclear power plant. Why shouldn't they? In the past fifteen years, at least half a dozen underdeveloped countries have slowed down their pace of economic advance by building steel plants. They would be further advanced economically today if they had spent the money on projects of higher economic priority. The danger is that in the next five or ten years comparable mis-investments will be made by some poor countries in nuclear power plants.

It is difficult for certain poor countries to resist the temptation to build steel plants and nuclear power plants even if it is clear that those plants will give a much lower real return than the real cost of capital, that is its opportunity cost. The difficulties of resisting the temptation are clearly increased if to considerations of prestige and the pressures of local interests are added pressures from special interests in the countries which give aid; the people, for example, who make machinery for steel plants or who make nuclear power stations.



The most effective use of aid requires that both the governments which provide aid and the governments which receive it should unite their forces to resist pressures from special interests to use the aid on projects of low economic priority.

The governments of underdeveloped countries are in a better position to resist these pressures if they know as precisely as possible what the real economic costs are of diverting aid from higher priority projects to lower priority projects. This means that they must be given by impartial international experts the greatest possible assistance in listing projects of economic development in the order of their probable real rate of economic return. This means very difficult, very careful, economic investigations by teams which include engineers, economists, financial analysts--and probably sociologists.

Better use of aid also means that the cost of a development project should be kept as low as possible and the returns on the project should be as high as possible. This means the highest possible standards of construction of the facility and of its management.



But speeding up the pace of economic development is not simply, or even mostly, a matter of the poor country making the best possible use of the best possible foreign aid, it is a matter of the poor country making the best possible use of all its resources, whether derived from foreign or domestic sources, from private foreign investors, from loans or grants from foreign governments, from taxes, from the profits of publicly-owned companies, or from domestic savings.

Where does the World Bank fit into this picture? What can it do in the future which it is not doing today to help poor countries speed up their economic development? I think the answer is that the World Bank should do more of the kind of thing which it is doing today and should do it more effectively. It can do these things only if it has on its staff or available on call a greatly increased number of first-rate economists, engineers, financial analysts, sociologists, agricultural experts, and educational experts, and if these people are not only expert on their own subjects but are also expert in the diplomacy of development, in the application of tact in the giving of advice.



If these people can be found in sufficient numbers, the Bank can staff better general economic missions which can stay longer in the country which they are investigating, and better missions on sectors of the economy such as transportation; the Bank can provide more assistance to its developing members in selecting and preparing high-priority projects for submission to the Bank or other possible providers of finance; it can staff better missions to appraise individual projects; it can organize more and better consultative groups.

I think that what the Bank is now doing in India may set a pattern for other countries.

Almost every year for the past ten years or so the Bank has sent an economic mission to India. The economic mission has usually been composed of anything up to four or five officers of the Bank, often with one or two outsiders as well. Its visits to India may last from one to two months. It produces its report on its return to Washington. I have read many of these reports. They are first-rate; they are penetrating; they have been extremely useful to India and to the members of the Indian Consortium.



But you cannot get deeply into the problems of the enigma of economic growth in a country which in itself constitutes a whole subcontinent, a subcontinent of 500 million people, two-thirds of whom have been living, probably for centuries, on the edge of starvation in a stagnating economy, by this kind of investment of a few man-months. To penetrate at all deeply into the problems, you need an investment of man-years rather than man-months.

Last year the World Bank decided to make a much more thorough investigation of the Indian economy than it had ever made. It has had a dozen experts in India for the last six months. They are now returning to Washington and have about three months in which to draw up their confidential report to the President of the Bank. This will be a report on what India has accomplished, and has failed to accomplish, in the last ten or fifteen years.

My hope is that this kind of investigation is going to make it easier for the Indian Government to make better use of all its resources. It will know better what kind of return it has been getting on the investments it has made in the various sectors of the economy, what kind of success it has had in



mobilizing its own resources, what sectors of the economy should be given the highest priority, what are the main projects in each main sector which appear to have the highest priority, which of the proposed main projects are clearly of low priority.

The present Bank inquiry into India cannot, of course, give precise answers to all these questions. It can, however, make clear what specialized missions should be sent to India to investigate special sectors of the economy. Thus, it may be that the time will come in the next two or three years when the Indian Government will decide that it would be useful for it to ask the Bank to assist it in constituting one or more missions to survey the transportation requirements of India over the next ten years or so--transportation by railway, road, water, air--to report on the impediments which now exist to the most effective use of existing investments in transport, how these existing investments can be made more productive with very little more capital investment, and what are the highest priority needs for new investment.

The Indian Consortium, and the Pakistan Consortium, have also broken new ground.



India and Pakistan are the only countries for which the Bank has formed consortia. The Indian Consortium was formed in 1958, the Pakistan in 1960. These consortia consist of the principal givers of aid meeting under the chairmanship of the World Bank. They normally meet twice a year. At the first meeting, there is a discussion of the state of the economy of the country concerned, India or Pakistan, and of its plans for economic development during the next year or so and what appear to be its requirements for aid. The country presents its case, first in a memorandum which is circulated a month or so before the first meeting of the consortium, and then in the person of a spokesman at the first meeting. The first meeting thus provides an opportunity for a confrontation between the providers of aid and the receiver of aid. At the second meeting, which usually takes place a month or six weeks later, the receiver of aid is not present and the providers discuss the pledges which they are prepared to make for the next fiscal year.

For four other countries--Colombia, Nigeria, Sudan and Tunisia--the Bank has formed, not consortia but consultative groups, and it has agreed to participate in groups for Turkey, Greece and Ecuador which have been sponsored by other agencies. The principal difference between a consortium and a consultative group is that there is no pledging meeting of a consultative group.



The Bank intends to increase greatly the number of consultative groups which it chairs and organizes. It hopes that in time it will be able to cover in its two consortia and its consultative groups about three-quarters of the aid which flows to its underdeveloped member countries. The consultative groups will provide opportunities for coordinating the activities of the aid givers. They will also provide opportunities for dialogues between the givers of aid and the receiver of aid.

The Bank will put before the groups the results of periodic, comprehensive, careful investigations both into the economy of the receiving country as a whole, its development possibilities, its problems and performance, and also into the main sectors of the economy. The Bank will advise the members of the consultative group which sectors deserve priority for external financing. It will help the receiving government to identify projects and to arrange for feasibility studies. The consultative group will discuss the uses which the receiving country is making of all the resources available to it and especially the foreign aid which it is given. The group will discuss the foreign aid requirements, the terms of aid appropriate for the country's financial position, and how to minimize the bad effects of aid-tying and of suppliers' credits. At such meetings both aid-receiving and aid-giving countries can expect to be asked embarrassing questions and to have their arms twisted.



This does not exhaust the problems of adjustment and expansion which the World Bank will have to face if it is to play its proper role during the next decade in helping to mount an increasingly more vigorous, massive, and sustained attack on the poverty, disease and ignorance of the underdeveloped world.

I have confined myself, for example, to the measures which might be taken to help the existing members of the World Bank. It would, however, be unwise to assume that over the next decade the membership of the Bank will not be extended. Certainly, if present trends continue in Eastern Europe, some of the Eastern European countries might become candidates for admission to the International Monetary Fund and to the Bank. Yugoslavia has been a valued member of the Bank. It has received loans from the Bank totalling \$260 million. Poland was a member of the Bank until 1950, Czechoslovakia until 1954.

And it should be recalled, if we are peering into the future, that the Soviet Union participated in the Bretton Woods Conference in 1944 which gave birth to the Fund and the Bank. It was indeed the Soviet delegation which provided one of the most dramatic incidents on the last day of the conference, when it announced at the outset of the final plenary meeting that the Soviet



Government would raise its subscription to the Bank from \$900 million to \$1,200 million, only \$100 million below the United Kingdom figure. According to Harrod, when this announcement was made, "Delegates jumped to their feet, and cheered wildly." (Harrod: Keynes, p. 580). Under the Bretton Woods formula, the Soviet Union would have been the third most important shareholder of the Bank. If the Bretton Woods Conference were to be held today, the Soviet Union would be the second largest shareholder.

The fog surrounding the future relations between Continental China and the rest of the world is too thick even to peer into.

#### CONCLUSION

I, of course, see no early or easy solution to the problems of the economic development of underdeveloped countries. In most of these countries the progress during the past ten years has been very disappointing. A much more massive effort is urgently required. Population growth must be curbed. Economic growth must become less enigmatic to us. The industrial nations must realize that the extent of their aid is not yet large enough to be decisive. They must pour into the underdeveloped countries a much greater flow of men, materials, skills. They must open their markets much wider to the goods of the underdeveloped countries. They must have patience for a long pull. The underdeveloped countries must devote to economic



development more of their own very scarce resources of men, materials and skills; they must be willing to postpone slow or low-yielding projects in favor of quick, high-yielding projects; they must be willing to change many of their traditional patterns of life and thought which constitute obstacles to rapid economic growth.

The rich nations and the poor nations and the middle-class nations in between must work together much more closely than they have in the past. Their partnership must become more frank, more intimate. The partnership must be more willing to experiment with new ideas, new instruments. It must be served by experts who earn more and more trust from all the partners for their intelligence, integrity, impartiality, zeal, and respectful sympathy, and for their ability to give unpalatable advice in the least corrosive, the least abrasive, way possible.

Escott Reid  
March 16, 1965



*[Handwritten signature]*

*Please return to me  
MASTER COPY  
Escott Reid*

*may still be other  
Corrections*

DIALOGUE ON DEVELOPMENT  
THE WORK OF THE WORLD BANK  
ROLE

ADDRESS TO THE  
CANADIAN LIFE INSURANCE OFFICERS ASSOCIATION

Seigniory Club  
Montebello, Quebec, Canada

on  
June 1, 1965



by  
ESCOTT REID

Director of the South Asia and Middle East  
Department of the World Bank, 1962-65  
Principal - designate, Glendon College,  
York University, Toronto, Canada

*May 28, 1965*



~~Single page~~  
~~Dec 2, 1955~~

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DIALOGUE ON DEVELOPMENT  
The Role of the World Bank  
by

ESCOTT REID

I shall be leaving the World Bank in two months to return to Canada to university work. I have had three most interesting years in the Bank. I consider it fitting that before I return home I give my swan song as <sup>an international civil servant</sup> a "World Banker" to this distinguished audience of my fellow citizens. That is why I so greatly welcomed the invitation to speak to you.

~~omit~~

There could be for me no audience more suitable. You, the life insurance companies operating in Canada, have given the supreme proof of your interest and belief in the World Bank. You have bought our bonds. You have also bought loans out of our portfolio. We in the Bank are grateful to you for your support.

So far we have had only three issues of Canadian dollar bonds - in 1954, in 1955 and in February of this year. We hope that arrangements can be made for us to come to the Canadian market every two years from now on with an appropriately sized public offering of our bonds.



I thank you for your support of the Bank's activities in the past. I promise that the Bank will do its best to provide you with further opportunities in the future to demonstrate your support of our activities - and to make prudent, profitable investments.

\* \* \* \*

It is a long thirteen years since I left Canada to become high commissioner in India. I would have felt cut off from Canada but for three things. My wife and I have returned whenever we could to our farm up the Gatineau. I have twice made tours of a great part of Canada on behalf of my old employer, the Canadian Institute of International Affairs, and have seen Canada growing and flexing its muscles. My faith in Canada has been ~~constantly~~ renewed, when I have been abroad, by ~~the evidence~~ <sup>each time</sup> I have seen ~~of the contribution~~ <sup>evidence of</sup> which Canada ~~is~~ <sup>a contribution</sup> making to the peace, order and good government of the world, ~~a contribution~~ which is often much greater than would be warranted merely by ~~Canada's~~ <sup>its</sup> size and resources.

The World Bank and its twin sister, the International



Monetary Fund, were established during the golden age of  
Canadian foreign policy, the decade of the forties. *Men*  
~~sometimes forget now that~~ during that decade we in Canada  
became on many important issues of foreign policy one of an  
inner group of three or four countries which moulded the  
shape of the future. This happened in the case of the  
Bank and the Fund. Graham Towers, W. C. Clark, Lou Rasminsky,  
*W. A. Mackintosh*, they are the Canadians who helped to  
create the Bank and the Fund.

The Bank and the Fund are monuments to the golden age  
of Canadian foreign policy. *Therefore*



Therefore from the very beginning Canada has had a special responsibility for the World Bank.

I have been proud as a Canadian to discover in my three <sup>years</sup> years with the Bank that Canada has continued to discharge this responsibility. I shall not try to measure the value of the advice which successive ministers of finance, governors of the Bank of Canada, and senior officers of the Bank of Canada, and of the Department of Finance, have given the presidents of the World Bank. I shall however measure some of the other contributions which Canada has made against the yardstick of the United States which has <sup>ten</sup> ten times our population and <sup>fifteen</sup> fifteen times our wealth.

✓ The ~~Canadian~~ <sup>of the Canadian Government</sup> paid-in subscription to the Bank is <sup>more than</sup> \$75 million. This is ~~between an eighth and~~ a ninth of the United States subscription. Canadian investors hold about



\$75 million of Bank bonds. This is about a thirteenth of the holdings  
of United States investors. <sup>The</sup> ~~Canada's~~ <sup>of the Canadian</sup> annual contribution to the <sup>Government</sup> ~~Government~~

International Development Association, the Bank's affiliate for

granting interest-free loans, is \$15 million. This is ~~between a~~ <sup>more than</sup>  
~~seventh and an eighth~~ <sup>an eighth</sup> of the United States contribution. Last year

Canadians bought \$10 million of loans out of the World Bank's portfolio.

This is about a sixth of the United States purchases, which were unusually  
low last year because of the United States balance of payments situation.

Neither as a Canadian citizen nor as a World Bank official  
am I satisfied with what we in Canada are doing. I very much hope we  
shall do much more. But I do say as a Canadian official of the World  
Bank that we in Canada can be proud of what we have done. And, because  
we have played the part we have in the creation and growth of the Bank,  
we can properly feel that the World Bank is our Bank.

\* \* \*

It is generally agreed that our bank, the World Bank, has on  
the whole been a success. <sup>These</sup> ~~I should like to examine with you the reasons~~  
~~we have for believing this,~~ <sup>are</sup>



~~Three reasons~~ are often given. The first is that the World Bank makes money. The second is that it has no bad debts. The third is that it has sold billions of dollars worth of its bonds at a low interest rate. Let us examine each of these claims in turn.

The income of the World Bank is now running at a rate of about \$275 million a year. Its expenses are only about half that. The Bank's net earnings are now therefore about \$135 million a year. For this let us give full credit to the governments which subscribed to the Bank's capital and have asked for no dividends on their shares. The Bank has about \$1,700 million of this rent-free capital or endowment which it can use over and over again in its lending operations and, because governments have not asked for dividends, it has in addition \$900 million in its reserves created out of its earnings. It is this nest egg, freely provided by governments or based on what they have freely provided, that enables the Bank to earn a surplus of \$135 million a year.

The World Bank has lent over 8 1/2 billion dollars in over 400 loans for projects in over 70 countries, and every single payment



due has been made in spite of the fact that half of the borrowers are really poor countries, countries with a per capita income of not more than \$250 a year. For this let us give full credit to the borrowers who have been punctilious about meeting their obligations sometimes in periods of great financial stringency.

✓ In some part no doubt <sup>of the Bank's borrowers</sup> their probity arises from the nature of the association between the World Bank and its customers. This is a continuing association. The World Bank does not deliberately go in for one-shot operations. If the Bank makes one loan to a country, it expects to follow that up in due course with other loans and investments. Some of these loans may be Bank loans, repayable over twenty years or so with interest at 5 1/2 percent. Other loans may be interest-free loans, repayable over fifty years, from the Bank's  
I.D.A.,  
✓ affiliate, the International Development Association. Investments in  
I.F.C.,  
✓ private industry may be made by the Bank's other affiliate, the International Finance Corporation.



A country which has borrowed from the World Bank knows that if it defaults on its loans from the Bank it will cut itself off from these three sources of scarce foreign exchange and even scarcer technical assistance. A country would thus be acting contrary to its own interests if it were to default on a World Bank loan as long as it could reasonably expect that the flow of resources to it from new Bank and I.D.A. loans and from I.F.C. investments was likely to be greater than the cost to it of servicing old Bank loans.

*It is important to realize*  
~~One point I should like to underline is that the more~~

money the International Development Association is able to lend to the deserving poor members of the Bank for high quality, high priority development projects, the safer are the Bank's loans to those members, and the safer are the loans of foreign governments and the investments of private foreign capital in those countries.

The reason is that a flow of interest-free I.D.A. loans for first-class projects of economic development - a sort of equity investment - strengthens a country's economy without adding greatly to its burden of foreign debt. It thus increases the ability of the



borrowing country to service its foreign debts, whether they are debts to the World Bank, to governments or to private investors.

It is therefore fortunate for all concerned - the poor underdeveloped countries, the World Bank, foreign governments, private foreign investors, that I.D.A.'s resources are growing.

Five years ago when I.D.A. was established, it was able to lend at a rate of \$150 million a year. This year it is able to lend at double that rate. Governments are now contributing \$250 million a year to it. The World Bank contributed \$50 million from its net earnings during its last fiscal year, 1964-65, and will probably continue with future annual contributions.

We are going to need a replenishment of I.D.A. funds in twelve months' time. It is to the governments and legislatures of the United States, Western Europe, Japan, Australia and Canada that we will look for help. <sup>we</sup> My own strong personal hope is that these governments and legislatures will find it possible to make a very considerable increase in their contributions to I.D.A. ~~It can assure~~ <sup>By</sup> ~~you that that money will be well used.~~

This ends my appeal to you to support an increased Canadian contribution to I.D.A. from the Canadian Government



*The third*

~~I have dealt now with two of the three reasons~~ which  
<sup>is</sup> are often given for believing that the World Bank has been  
a success. ~~The third reason~~ is that the Bank has been able  
to sell on the major capital markets of Europe and North America  
more than eighty issues of its bonds to a total value of more  
than \$4 1/2 billion and that it has usually had to pay only a  
quarter of one percent higher interest rate than the United  
States Government or the Canadian Government has had to pay.

Undoubtedly one reason the Bank has been able to do this  
is that it has built up a reputation as a soundly managed  
institution which is a prudent lender and has steady high  
earnings. But surely the main reason is that the loans of the  
World Bank are safer than the loans of any single government for  
World Bank bonds are more than trebly guaranteed by eminently  
credit worthy governments and these guarantees are independent of  
each other so that the failure of one or more members to make  
good on their guarantee does not relieve any other member from  
its obligation.

*The United States*



The United States guarantee ~~alone~~ is for more than twice the value of the present funded debt of the Bank which is now about \$2,700 million and to make good on the guarantee no action by Congress is required, no authorization bill, no appropriation bill, no hearings by congressional committees, no resolution by Congress. Congress has already given the United States administration all the authority it needs to make good on the United States guarantee. The British guarantee is for almost \$2 1/2 billion, the French and German for about a billion dollars each. The Canadian Government's guarantee is for almost \$700 million. The guarantees of those five countries alone total over ten billion dollars, and the funded debt of the Bank is only a little over a quarter of this.

~~talk to the  
of This ends my talk  
to you on  
next Canadian new  
word Bond bonds.~~



In my opinion the real <sup>proof</sup> test of the success of the World Bank is not that it has net earnings of about \$135 million a year. It is not that it has had no defaults on its \$8 1/2 billion of loans. It is not that it has been able to sell \$4 1/2 billion of bonds at a relatively low interest rate. It is the generally high quality of the loans it has made.

Certainly not all the projects we have financed with our loans have turned out to be as good as we thought they would be when we agreed to give the loan. But almost all the projects have turned out to be pretty good projects and some have turned out to be extremely good projects, better than we had any right to expect when we gave the loan. By a good project I mean one which makes a considerable contribution to speeding up the rate of economic growth of the borrowing country.

The World Bank has been able to make this contribution to the solution of the enigma of economic growth in underdeveloped countries because it has from the beginning insisted that it will not give a loan for a project until it has been



able to convince itself by sending out an expert appraisal mission, that the project is well conceived and well designed, that it is going to be well constructed and well managed and that it will yield a high real rate of economic return. The Bank lends only for what it considers are hard, high priority projects, and what is true of Bank loans is equally true of I.D.A. loans and of <sup>I.F.C.'s</sup> ~~the~~ investments in private industry ~~of the International Finance Corporation.~~

It is the care which the Bank group of institutions takes over the appraisal, negotiation and supervision of each project which has resulted in almost all the projects it finances turning out to be high quality projects. One can put this another way by saying that the record of the World Bank group is good because it has refused to lend to or invest in projects which it considers are badly engineered or of low economic priority or likely to be badly managed.

↗  
Actually the Bank group can claim more merit than this.

It has often been able, as a result of long, patient, investigations, discussions and negotiations, to persuade countries



to so modify the projects they have submitted to the Bank - sometimes out of all recognition - that they become projects which the Bank can lend for. This is one of the great accomplishments of the dialogue on development which takes place between the Bank and its borrowers. It is an accomplishment of which the Bank and its borrowers can be proud. They share the credit for the fruitfulness of the dialogue for they have made it not a dialogue of the deaf, or a dialogue between two solitudes but a dialogue between partners in development.

This dialogue on specific development projects has been the most important part of the work of the World Bank. It is difficult work. It is difficult for the Bank. It can be even more difficult - and frustrating - for the underdeveloped borrowing countries. For the borrowing countries naturally want to get ahead with their development projects as quickly as possible, and they find that the projects are held up by the meticulous Bank procedures. The politicians and the administrators of a borrowing country, who are drawn into a dialogue with the Bank on a development



project, must often consider that the Bank is unduly conservative, rigid, cautious and bureaucratic. They may receive from the Bank, long, complicated, difficult questionnaires on a project for which they have requested a loan. They will certainly receive visits of Bank officials and of a Bank appraisal mission. The Bank appraisal mission may raise considerations which will seem to them irrelevant, inconsequential or immaterial.

The dialogue with the Bank on a project may drag on and on. There are indeed dialogues between the Bank and a borrower over a project which have gone on for two years or more. The borrower may find that the dialogue will gradually widen from the specific project for which he has asked a loan to a whole sector of the economy of his country. He may be asked as a condition of receiving the loan to undertake to increase power rates, or to establish an autonomous authority to operate the project, or to employ foreign experts in the construction and operation of the project. Even after the loan is granted he finds himself involved in what may seem to him to be unnecessary

*a municipal water and sewage*



complexities of international competitive bidding and unpalatable  
OF THE EXECUTION  
supervision of the project by World Bank missions.

This kind of dialogue is difficult enough for the Bank and for the borrower. But what is even more difficult for Bank and borrower is a dialogue on the general economic, financial and development policies of the borrowing country. This

dialogue has <sup>often</sup> been desirable in the past. It is, in my opinion, <sup>usually</sup> going to be essential in the future. *and has taken place*

For speeding up the pace of economic development is not, of course, simply or even mainly a matter of a poor country investing the best possible foreign aid in the best possible development projects. It is a matter of the poor country making the best possible use of all its resources, whether derived from foreign or domestic sources, from private foreign investors, from taxes, from the profits of publicly owned enterprises, or from domestic savings. There is little use in the World Bank successfully insisting that its loans go only to high quality, high priority projects if the borrowing country is wasting the



foreign exchange it receives from other sources, or is failing to mobilize its own domestic resources for development.

If a borrowing country needs a large flow of resources from abroad over a long period, it will, I am afraid, be increasingly necessary for the World Bank to conduct with it not just a dialogue on specific development projects or even a dialogue on whole sectors of its economy. ~~It will be necessary for the Bank to conduct with~~  
BUT  
~~it a dialogue on development, a dialogue which will range over the~~  
whole field of its economic, financial and development problems, policies and <sup>R</sup>performance.

I say that I am afraid that it will be <sup>increasingly</sup> necessary to develop this kind of dialogue on development between the World Bank and those of its underdeveloped member countries who need a large flow of resources from abroad over a long period. I use the words, "I am afraid," because I do not relish the prospect.

This kind of dialogue ~~will~~ <sup>s</sup>require of the World Bank ~~a~~ great increase in its knowledge and wisdom about the enigma of economic growth, and ~~make~~ <sup>IT MAKES</sup> great demands upon <sup>the</sup> its skills, <sup>the</sup> its tact and <sup>the</sup> its ~~the~~  
~~humility~~ <sup>This</sup> ~~of the officers of the~~  
~~World Bank~~ <sup>humility</sup> ~~of the officers of the~~ ~~World Bank~~ ~~IT~~



~~This kind of dialogue will~~ subject to a severe strain the patience and wisdom of the sensitive and proud governments and peoples of the borrowing countries.

Why then do I suggest that we run such serious risks?

It is because I believe that the present flow of aid from rich countries to poor countries must be increased very greatly in quantity and in quality and must continue over a long time.

The aid is not yet large enough to be decisive. If the aid is to be decisive, the rich countries must pour into the poor countries a much greater flow of men, materials, skills. They must provide more of their aid on easy terms. They must open their markets much wider to the goods of the underdeveloped countries. They must have patience for a long pull. Patience not for a decade <sup>of development</sup> but for a generation.

I believe that the rich countries will not be able to mount this kind of massive effort over a long period unless their peoples and legislatures can feel more assured than they do today that the poor countries are following reasonably sensible economic, *financial, and*



~~I believe that the World Bank has demonstrated that it~~

~~I know of no institution other than the World Bank which could become capable of assuming this task~~

development and financial policies. But this must not mean a

whole series of inquisitions by individual national governments

into the affairs of other national governments. It would be

intolerable if each national legislature which votes funds from

its taxpayers for international economic development were to

attempt to undertake its own inquisitions into the economic

policies of the countries to which it is giving aid. Some

impartial, expert <sup>international</sup> agency must be given the task. It must be

an agency which <sup>can win and maintain</sup> has the confidence of both the givers and the

receivers of aid, an agency, preferably, in which givers and

receivers <sup>can feel that they are equal partners.</sup> are partners. I can see no agency other than the

~~World Bank~~ <sup>which is</sup> capable of assuming this task on behalf of

the two-thirds of the world - rich and poor - outside Eastern

Europe, the Soviet Union and China.

\* \* \* \*

~~could develop the capacity to assume this~~

Much is required of the rich nations if the poor nations are to succeed in raising the standards of living of their



peoples at a tolerable rate. But, if the partnership in development

between rich nations and poor nations is to succeed, the rich

**FAR GREATER SACRIFICES ARE**  
nations must constantly remember that ~~more, much more, is~~  
^

required of the poor nations.

Out of their poverty, out of their very scarce resources of materials and skills, the poor nations must squeeze out a greater proportion for economic development. They must be willing to postpone indefinitely the prestige projects, which may be big dams, or steel plants, or nuclear power plants, or international airlines, or new capital cities, if these yield a low rate of economic return.

*projects which have a quick and a*  
They must concentrate on ~~quick~~, high yielding ~~projects~~. Most of them

must concentrate on agriculture. They must be willing to change many

of their traditional patterns of life and thought which constitute

impediments to rapid economic growth. They must be willing to

participate to the full in outside expert investigations into their

domestic economic affairs and to consider sympathetically the conclusions

✓ of those investigators. <sup>ICNS</sup> They must <sup>FACE</sup> ~~affirmatively~~ approach the pressing

problems of expanding population. They must accord to an agency like

the World Bank three basic rights: the right to be informed, the



right to warn, and the right to encourage.

As for the experts from the World Bank who will be participating in investigations and in dialogues on development with poor countries, much is required of them. For the giving of advice is a delicate and a hazardous occupation. A country which is not proud is not worth helping.

The giver of advice can usefully remind himself of four things. Firstly, that human judgment is fallible. Secondly, that luck or providence or the unpredictable plays a large role in economic development. Thirdly, that while it is a good thing for poor people to have more to eat and to wear, better places to live in, more and better nurses, doctors, and teachers, and less illness, it is a better thing for them to have these goods without sacrificing those ancient values of their society which can give them a feeling of belonging to a group, a sense of dignity, and the possibility of serenity. The fourth thing which a giver of advice to a poor country can usefully remind himself of is that, even if final truth has been revealed to him, he is



not Moses laying down the law from Mount Sinai. He is a partner speaking to a free and equal partner. For him, success is measured not by the wisdom of the advice he gives but by how much of his wise advice is accepted. His task is one of persuasion. When he intervenes with advice his "intervention should be in the least abrasive, the least corrosive way possible".



DIALOGUE ON  
DEVELOPMENT:

Role of the  
WORLD BANK

*Text of an address to the Canadian  
Life Insurance Officers Association at  
the Seignior Club, Montebello, Canada,  
June 1, 1965 by ESCOTT REID, Director,  
South Asia and Middle East Department  
of the World Bank, 1962-65, and  
Principal-designate, Glendon College,  
York University, Toronto.*





I shall be leaving the World Bank in two months to return to Canada to university work. I have had three most interesting years in the Bank. I consider it fitting that before I return home I give my swan song as an international civil servant to this distinguished audience of my fellow citizens. That is why I so greatly welcomed the invitation to speak to you. There could be for me no audience more suitable. You, the life insurance companies operating in Canada, have given the supreme proof of your interest and belief in the World Bank. You have bought our bonds. You have also bought loans out of our portfolio.

So far we have had four issues of Canadian dollar bonds—in 1952, in 1954, in 1955 and in February of this year. We hope that arrangements can be made for us to come to the Canadian market every two years from now on with an appropriately sized public offering of our bonds.

I thank you for your support of the Bank's activities in the past. I promise that the Bank will do its best to provide you with further opportunities in the future to demonstrate your support of our activities—and to make prudent, profitable investments.

IT is a long thirteen years since I left Canada to become High Commissioner in India. I would have felt cut off from Canada but for three things. My wife and I have returned whenever we could to our farm up the Gatineau. I



have twice made tours of a great part of Canada on behalf of my old employer, the Canadian Institute of International Affairs, and have seen Canada growing and flexing its muscles. My faith in Canada has been renewed, when I have been abroad, each time I have seen evidence of Canada making a contribution to the peace, order and good government of the world greater than would be warranted merely by its size and resources.

The World Bank and its twin sister, the International Monetary Fund, were established during the golden age of Canadian foreign policy, the decade of the forties. During that decade we in Canada became on many important issues of foreign policy one of an inner group of three or four countries which moulded the shape of the future. This happened in the case of the Bank and the Fund. Graham Towers, W. C. Clark, Louis Rasminsky, they are the Canadians who helped to create the Bank and the Fund. From the beginning Canada has had a special responsibility for the World Bank.

I have been proud as a Canadian to discover in my three years with the World Bank that Canada has continued to discharge this responsibility. I shall not try to measure the value of the advice which successive ministers of finance, governors of the Bank of Canada, and senior officers of the Bank of Canada and of the Department of Finance, have given the presidents of the World Bank. I shall, however, measure some of the other contributions which Canada has made against the yardstick of the United States which has ten times our population and fifteen times our wealth. (In these comparisons and indeed in all the dollar references in my speech, I shall use U.S. dollars



because our books are kept in terms of U.S. currency.)

The paid-in subscription of the Canadian Government to the Bank is \$75 million. This is more than a ninth of the United States subscription. Canadian investors hold about \$75 million of Bank bonds. This is about a thirteenth of the holdings of United States investors. The annual contribution of the Canadian Government to the International Development Association, the Bank's affiliate for granting interest-free loans, is \$14 million. This is more than an eighth of the United States contribution. Last year Canadians bought \$10 million of loans out of the World Bank's portfolio. This is about a sixth of the United States purchases, which were unusually low last year because of the United States balance of payments situation.

Neither as a Canadian citizen nor as a World Bank official am I satisfied with what we in Canada are doing. I very much hope we shall do much more. But I do say as a Canadian official of the World Bank that we in Canada can be proud of what we have done. And, because we have played the part we have in the creation and growth of the Bank, we can properly feel that the World Bank is our bank.

**I**T is generally agreed that our bank, the World Bank, has on the whole been a success. Three reasons for believing this are often given. The first is that the World Bank makes money. The second is that it has no bad debts. The third is that it has sold billions of dollars worth of its bonds at a low interest rate. Let us examine each of these claims in turn.



The income of the World Bank is now running at a rate of about \$275 million a year. Its expenses are only about half that. The Bank's net earnings are now therefore about \$135 million a year. For this let us give full credit to the governments which subscribed to the Bank's capital and have asked for no dividends on their shares. The Bank has about \$1.7 billion of this rent-free capital or endowment which it can use over and over again in its lending operations and, because governments have not asked for dividends, it has in addition \$900 million in its reserves created out of its earnings. It is this nest egg, freely provided by governments or based on what they have freely provided, that enables the Bank to earn a surplus of \$135 million a year.

The World Bank has lent over \$8½ billion in over 400 loans for projects in over 70 countries, and every single payment due has been made in spite of the fact that half of the borrowers are really poor countries, countries with a per capita income of not more than \$250 a year. For this let us give full credit to the borrowers who have been punctilious about meeting their obligations, sometimes in periods of great financial stringency. In some part no doubt the probity of the Bank's borrowers arises from the nature of the association between the World Bank and its customers. This is a continuing association. The World Bank does not deliberately go in for one-shot operations. If the Bank makes one loan to a country it expects to follow that up in due course with other loans and investments. Some of these loans may be Bank loans, repayable over twenty years or so with interest at 5½ percent. Other loans may be interest-free loans, repayable over fifty years, from the Bank's affiliate, the International De-



velopment Association (IDA). Investments in private industry may be made by the Bank's other affiliate, the International Finance Corporation (IFC).

A country which has borrowed from the World Bank knows that if it defaults on its loans from the Bank it will cut itself off from these three sources of scarce foreign exchange and even scarcer technical assistance. A country would thus be acting against its own interests if it were to default on a World Bank loan as long as it could reasonably expect that the flow of resources to it from new Bank and IDA loans and from IFC investments was likely to be greater than the cost to it of servicing old Bank loans.

It is important to realize that the more money the International Development Association is able to lend to the deserving poor members of the Bank for high quality, high priority development projects, the safer are the Bank's loans to those members, and the safer are the loans of foreign governments and the investments of private foreign capital in those countries. The reason is that a flow of interest-free IDA loans for first-class projects of economic development—a sort of equity investment—strengthens a country's economy without adding greatly to its burden of foreign debt. It thus increases the ability of the borrowing country to service its foreign debts, whether they are debts to the World Bank, to governments or to private investors. It is therefore fortunate for all concerned—the poor underdeveloped countries, the World Bank, foreign governments, private foreign investors—that IDA's resources are growing. Five years ago when IDA was established, it was able to lend at a rate of \$150



million a year. This year it is able to lend at double that rate. Governments are now contributing \$250 million a year to it. The World Bank contributed \$50 million from its net earnings during its last fiscal year, 1964/65, and will probably continue with future annual contributions.

We are going to need a replenishment of IDA funds in twelve months' time. It is to the governments and legislatures of the United States, Western Europe, Japan, Australia and Canada that we shall look for help. We hope that these governments and legislatures will find it possible to make a very considerable increase in their contributions to IDA.

The third reason which is often given for believing that the World Bank has been a success is that the Bank has been able to sell on the major capital markets of Europe and North America more than eighty issues of its bonds to a total value of more than \$4½ billion and that it has usually had to pay only a quarter of one percent higher interest rate than the United States Government has had to pay.

Undoubtedly, one reason the Bank has been able to do this is that it has built up a reputation as a soundly managed institution which is a prudent lender and has steady high earnings. But surely the main reason is that the loans of the World Bank are safer than the loans of any single government, for World Bank bonds are more than trebly guaranteed by eminently creditworthy governments and these guarantees are independent of each other, so that the failure of one or more members to make good on their guarantee does not relieve any other member from its obligation.



The United States guarantee is for more than twice the value of the present funded debt of the Bank, which is now about \$2.7 billion, and to make good on the guarantee no action by Congress is required, no authorization bill, no appropriation bill, no hearings by congressional committees, no resolution by Congress. Congress has already given the United States administration all the authority it needs to make good on the United States guarantee. The British guarantee is for almost \$2½ billion, the French and German for about a billion dollars each. The Canadian Government's guarantee is for almost \$700 million. The guarantees of those five countries alone total over \$10 billion, and the funded debt of the Bank is only a little over a quarter of this.

In my opinion the real proof of the success of the World Bank is not that it has net earnings of about \$135 million a year. It is not that it has had no defaults on its \$8½ billion of loans. It is not that it has been able to sell \$4½ billion of bonds at a relatively low interest rate. It is the generally high quality of the loans it has made. Certainly not all the projects we have financed with our loans have turned out to be as good as we thought they would be when we agreed to give the loan. But almost all the projects have turned out to be pretty good projects and some have turned out to be extremely good projects, better than we had any right to expect when we gave the loan. By a good project I mean one which makes a considerable contribution to speeding up the rate of economic growth of the borrowing country.

The World Bank has been able to make this contribution to the solution of the enigma



of economic growth in underdeveloped countries because it has from the beginning insisted that it will not give a loan for a project until it has been able to convince itself, by sending out an expert appraisal mission, that the project is well conceived and well designed, that it is going to be well constructed and well managed and that it will yield a high real rate of economic return. The Bank lends only for what it considers are hard, high priority projects, and what is true of Bank loans is equally true of IDA loans and of IFC's investments in private industry.

It is the care which the Bank group of institutions takes over the appraisal, negotiation and supervision of each project which has resulted in almost all the projects it finances turning out to be high quality projects. One can put this another way by saying that the record of the World Bank group is good because it has refused to lend to or invest in projects which it considers are badly engineered or of low economic priority or likely to be badly managed. Actually the Bank group can claim more merit than this. It has often been able, as a result of long, patient investigations, discussions and negotiations, to persuade countries so to modify the projects they have submitted to the Bank—sometimes out of all recognition—that they become projects which the Bank can lend for. This is one of the great accomplishments of the dialogue which takes place between the Bank and its borrowers. It is an accomplishment of which the Bank and its borrowers can be proud. They share the credit for the fruitfulness of the dialogue for they have made it not a dialogue of the deaf, or a dialogue between two solitudes but a dialogue between partners in development.



This dialogue on specific development projects has been the most important part of the work of the World Bank. It is difficult work. It is difficult for the Bank. It can be even more difficult—and frustrating—for the underdeveloped borrowing countries. For the borrowing countries naturally want to get ahead with their development projects as quickly as possible, and they find that the projects are held up by the meticulous Bank procedures. The politicians and the administrators of a borrowing country, who are drawn into a dialogue with the Bank on a development project, must often consider that the Bank is unduly conservative, rigid, cautious and bureaucratic. They may receive from the Bank, long, complicated, difficult questionnaires on a project for which they have requested a loan. They will certainly receive visits of Bank officials and of a Bank appraisal mission. The Bank appraisal mission may raise considerations which will seem to them irrelevant, inconsequential or immaterial.

The dialogue with the Bank on a project may drag on and on. There are indeed dialogues between the Bank and a borrower over a project which have gone on for two years or more. The borrower may find that the dialogue will gradually widen from the specific project for which he has asked a loan to a whole sector of the economy of his country. He may be asked as a condition of receiving the loan to undertake to increase power rates, or to establish an autonomous authority to operate a municipal water and sewage system, or to employ foreign experts in the construction and operation of the project. Even after the loan is granted he finds himself involved in what may seem to him to be unnecessary complexities of international competitive bidding and



unpalatable supervision of the execution of the project by World Bank missions.

This kind of dialogue is difficult enough for the Bank and for the borrower. But what is even more difficult for Bank and borrower is a dialogue on the general economic, financial and development policies of the borrowing country. This dialogue has often been desirable in the past and has taken place. It is, in my opinion, usually going to be essential in the future.

For speeding up the pace of economic development is not simply or even mainly a matter of a poor country investing the best possible foreign aid in the best possible development projects. It is a matter of the poor country making the best possible use of all its resources, whether derived from foreign or domestic sources, from private foreign investors, from taxes, from the profits of publicly owned enterprises, or from domestic savings. There is little use in the World Bank successfully insisting that its loans go only to high quality, high priority projects if the borrowing country is wasting the foreign exchange it receives from other sources, or is failing to mobilize its own domestic resources for development.

If a borrowing country needs a large flow of resources from abroad over a long period, it will, I am afraid, be increasingly necessary for the World Bank to conduct with it not just a dialogue on specific development projects or even a dialogue on whole sectors of its economy but a dialogue on development, a dialogue which will range over the whole field of its economic, financial and development problems, policies and performance. I use the words, "I



am afraid," because I do not relish the prospect. This kind of dialogue requires of the World Bank great knowledge and wisdom about the enigma of economic growth. It makes great demands upon the skills, the tact and the humility of the officers of the World Bank. It subjects to a severe strain the patience and wisdom of the sensitive and proud governments and peoples of the borrowing countries.

Why then do I suggest that we run such serious risks? It is because I believe that the present flow of aid from rich countries to poor countries must be increased very greatly in quantity and in quality and must continue over a long time. The aid is not yet large enough to be decisive. If the aid is to be decisive, the rich countries must pour into the poor countries a much greater flow of men, materials, skills, They must provide more of their aid on easy terms. They must open their markets much wider to the goods of the underdeveloped countries. They must have patience for a long pull. Patience not for a decade of development but for a generation.

I believe that the rich countries will not be able to mount this kind of massive aid effort over a long period unless their peoples and legislatures can feel more assured than they do today that the poor countries which they are aiding are moving at a reasonable pace to improve their economic, financial and development policies, programs and performance. But this must not mean a whole series of inquisitions by individual national governments into the economic affairs of other national governments. This would be intolerable. Some impartial, expert international agency must be given the task. It must be an agency which can win



and maintain the confidence of both the givers and the receivers of aid, an agency in which givers and receivers can feel that they are equal partners. I know of no institution other than the World Bank which could become capable of assuming this task on behalf of the two-thirds of the world—rich and poor—outside Eastern Europe, the Soviet Union and mainland China.

**M**UCH is required of the rich nations if the poor nations are to succeed in raising the standards of living of their peoples at a tolerable rate. But, if the partnership in development between rich nations and poor nations is to succeed, the rich nations must constantly remember that far greater sacrifices are required of the poor nations.

Out of their poverty, out of their very scarce resources of materials and skills, the poor nations must squeeze out a greater proportion for economic development. They must be willing to postpone indefinitely the prestige projects, which may be big dams, or steel plants, or nuclear power plants, or international airlines, or new capital cities, if these yield a low rate of economic return. They must concentrate on projects which have a quick and a high yield. Most of them must concentrate on agriculture. They must face the pressing problems of expanding population. They must be willing to change many of their traditional patterns of life and thought which constitute impediments to rapid economic growth. They must be willing to participate to the full in investigations by foreign experts into their domestic economic affairs and to consider sympathetically the conclusions of those investigations. They must accord to an agency like the



World Bank three basic rights: the right to be informed, the right to warn and the right to encourage.

As for the experts from the World Bank who will be participating in investigations and in dialogues on development with poor countries, much is required of them. For the giving of advice is a delicate and a hazardous occupation. A country which is not proud is not worth helping.

The giver of advice can usefully remind himself of four things. Firstly, that human judgment is fallible. Secondly, that luck or providence or the unpredictable plays a large role in economic development. Thirdly, that while it is a good thing for poor people to have more to eat and to wear, better places to live in, more and better nurses, doctors and teachers, and less illness, it is a better thing for them to have these goods without sacrificing those ancient values of their society which can give them a feeling of belonging to a group, a sense of dignity and the possibility of serenity. The fourth thing which a giver of advice to a poor country can usefully remind himself of is that, even if final truth has been revealed to him, he is not Moses laying down the law from Mount Sinai. He is a partner speaking to a free and equal partner. For him, success is measured not by the wisdom of the advice he gives but by how much of his wise advice is accepted. His task is one of persuasion. When he intervenes with advice his "intervention should be in the least abrasive, the least corrosive way possible."



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March 11, 1966.

*Address March 17, 1966  
Society for International  
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STRENGTHENING THE PARTNERSHIP  
AGAINST WORLD POVERTY

by

Escott Reid

I'm not going to talk about underdeveloped countries,  
or less developed countries or even developing countries.  
I'm going to talk about poor countries. It's the poverty of  
the poor countries which is their distinguishing characteristic.  
That is what China, India, Brazil, have in common.

What Pericles said of Athens, the poor countries of the  
world can now say of themselves. Pericles said, "Poverty we  
think it no disgrace to acknowledge but a real degradation to  
make no effort to overcome".

I'm not going to talk about developed countries or  
industrial countries. I'm going to talk about rich countries.  
It's the wealth of rich countries which is their distinguishing  
characteristic. That is what the United States and the Soviet  
Union have in common.

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Escott Reid, Principal of Glendon College, York University, Toronto.  
He was Canadian High Commissioner in India from 1952 to 1957;  
Ambassador to Germany from 1958 to 1962; and Director of the World  
Bank's operations in South Asia and the Middle East from 1962 to 1965  
He is the author of "The Future of the World Bank", an essay  
published in September 1965, by the World Bank in Washington.



I assume we all agree that we have reached some kind of crisis in the relations between rich and poor countries.

In the last fifteen years the yearly rate of economic growth of the poor countries has been slowing down while their rate of population growth has been speeding up and their international debt has been exploding. In the last five years the rich countries have got much richer but they have not shared any of their new wealth with the poor countries. In many rich countries public support for, or even acquiescence in, government aid to poor countries has been weakening.

Some leaders of public opinion in rich countries are displaying a mounting impatience with what they consider to be the ingratitude of the poor for the favours they have received, or with what they consider to be their inefficiency and corruption or the way they waste their resources on fighting and preparations for fighting. Other leaders in rich countries consider that their own expenditures on fighting and preparations for fighting are far more important than finding money to promote the economic development of poor countries. Others in rich countries seem to believe that the struggle against poverty in poor countries is virtually hopeless and that there is little use in pouring good money after bad.

Because of all this there exists today a wide-spread uneasy feeling among those concerned in rich and poor countries with the problems of the economic development of poor countries that the world has reached some kind of crisis in the relations



between rich and poor countries. There is a wide-spread uneasy feeling that if the rich and the poor countries cannot together resolve this crisis in a reasonably sensible way within a reasonable time, most of the terribly poor of the world -- and two out of three men, women and children in the world are terribly poor -- most of the terribly poor of the world will be left without much reason to believe in the possibility of a much better life for themselves and for their children.

The consequences of this would be profound. The problem of the economic development of poor countries is one of the two great problems of the last third of the twentieth century on which we are now entering. It is comparable in importance to the problem of the relations between the Western world and China.

\* \* \*

To this audience, I am not going to argue the case for foreign aid. I'm not even going to elaborate on the reasons why I believe that there is more ground for hope today than there was ten or fifteen years ago that, if we, the partnership of rich countries, poor countries, middle income countries, and international institutions, persist in our struggle against poverty in poor countries we can succeed.

The main reason why there is more ground for hope is that the development of the intra-uterine device means that for the first time in the history of the world a technique of population control has been devised which is suitable for very poor countries.



The population explosion is no longer uncontrollable. The population explosion need no longer terrify us into paralysis.

There are other grounds for hope that if we persist in the struggle against world poverty we can succeed.

Many of the poor countries are far ahead of where they were ten years ago in their ability to formulate and carry out sensible development policies. In poor countries and in rich countries, in international institutions, in universities, in institutes of economic research, there is now more knowledge and understanding about the problems of economic growth than there was ten years ago. Economic growth is still an enigma but it is a little less enigmatic. International institutions under the devoted leadership of men like Mr. Hoffman, Dr. Prebisch, and Mr. George Woods have gained experience in mobilizing opinion and resources. The United Nations Development Programme is widening and deepening its pre-investment studies. The World Bank is becoming capable of bearing heavier burdens, of taking an increasingly active role in encouraging and helping poor countries to make the best use of all their resources, in persuading rich countries to provide more aid, aid for better projects, aid on better terms, in administering and coordinating aid.

*Expand  
UNDP*

\* \* \*

We know that if aid from rich countries to poor countries is to be decisive, the rich countries must pour into the poor countries a much greater flow of materials and skills. They must provide more of their aid on easy terms. They must open their markets much wider to the goods of the poor countries.



They must have patience for a long pull. Patience not for a decade of development but for a generation of development. Patience not till 1970 but till 1999.

What order of magnitude of aid is required?

The net official flow of long-term capital from the rich members of the World Bank to the poor members is now about six billion dollars a year or about six-tenths of one percent of their combined gross national products. I have no hesitation in saying that this flow of financial resources from rich countries to poor countries should be increased immediately by at least fifty percent, that is from \$6 billion a year to \$9 or \$10 billion a year. This is the minimum figure suggested by the conservative economists of the conservative, tough-minded World Bank.

We must not delude ourselves that this kind of increase in aid from \$6 billion a year to \$9 or \$10 billion will be sufficient for long. It will not. My own guess is that we should think in terms of a tripling of net aid over the next ten years. Our target for 1976 from the rich members of the World Bank should therefore be about \$18 billion dollars a year. Assuming that the gross national products of the rich members of the World Bank increase by five percent a year, \$18 billion dollars in 1976 would be a little under one percent of the combined gross national products of the rich members of the World Bank. (I am talking in terms of dollars with the purchasing power of dollars in 1963).



I am convinced that if the international war against poverty is to have a reasonable chance of success the rich nations of the world, including the Soviet Union, Czechoslovakia, East Germany and Poland, must mount this kind of massive effort over a long period.

I am equally convinced that there is not the slightest chance of this kind of massive effort being mounted unless the poor countries and the World Bank do much more than they are now doing to help the leaders of rich countries find a way around the obstacles to mounting this kind of effort.

The partnership against poverty must be strengthened.

*UNCTAD* — The poor countries must make it easier for the rich countries to give them much more aid and aid on much more generous terms.

The World Bank must sharpen its tools of economic analysis and perfect its techniques of development diplomacy so that it can give better advice to poor countries and give it in the way most likely to result in acceptance. (And - a point which I shall develop later - the rich countries must make it easier for poor countries to accept much more aid and much more good advice).

Poor countries must, by an exercise of sympathetic imagination, come to realize better than they do today the practical political difficulties which face the enlightened leaders of rich countries who want to do more for the partnership against the poverty of the poor countries. Poor countries must be more willing to do things sensible in themselves which would make it easier for those enlightened leaders in the rich countries to find a way around those practical political difficulties.



Poor countries must make it easier for the leaders of rich countries to convince their legislatures and their peoples that the poor countries which they are aiding are not wasting the resources that are given them and that they are not wasting their own domestic resources. Poor countries must realize that the rich countries are not likely to increase greatly the quantity and the quality of their aid to poor countries unless they can feel reasonably certain that the poor countries which they are aiding are moving at a reasonable pace to improve their economic, financial and development policies, programmes and performance.

This does not mean that poor countries, in order to make it easier for the enlightened leaders of enlightened rich countries to do more for them, should be required to submit to a whole series of inquisitions by individual national governments into their economic affairs. This would be intolerable. Therefore, the inquisitions, the investigations, must be made not by national governments but by some impartial expert international agency. This must be an agency which can win and maintain the confidence of both the givers and the receivers of aid. An agency in which givers and receivers can feel that they are equal partners. I know of no institution other than the World Bank which could become capable of assuming this task on behalf of the two-thirds of the world outside Eastern Europe, the Soviet Union and China.



If a poor country wants massive aid over a long time it must accept the political reality that its chances of getting that aid will be greatly increased if it requests the World Bank to make searching investigations into its economic policies, programmes, projects and performance and if these investigations are followed by improvements in its policies, programmes, projects and performance.

This will increase the chances of the poor country getting greatly increased aid. This will increase the chances that the aid will be well used. This will increase the chances that the whole programme of economic development of the poor country will be improved, that its rate of economic growth will be speeded up.

Poor countries need wise unpalatable advice on what they should do to speed up their economic development. They need to take this advice. The experience of the World Bank has indicated that it is easier for an international institution to give wise, unpalatable advice to poor countries on problems of economic development than for national governments to give such advice and that it is easier for poor countries to take the advice of an international agency than that of a national government.

But though it may be easier, it is not easy. The rich countries and the World Bank must constantly strive to find ways to make it easier for the enlightened leaders of enlightened poor countries to invite the World Bank to investigate their affairs and to give them advice, to make it easier for the leaders, the legislatures and the peoples



of poor countries to accept this advice even if it is unpalatable. This is one of the ways by which the rich countries and the World Bank can strengthen the international partnership against world poverty.

The more confidence that the poor countries have in the wisdom of the advice given them by the World Bank, the easier it will be for them to accept the advice even if it is unpalatable. In order to increase the confidence of the poor countries in the wisdom of the advice given them by the World Bank, we need better expert economic analysis by the World Bank both of the economic and development policies, programmes and performance of the poor countries and of the comparative real economic costs and benefits of alternative individual projects of development in poor countries.

In order to get better analyses we need to sharpen the present blunt tools of economic analysis. That is why I have urged that the World Bank and its sister institution, the International Monetary Fund, should set up in Washington a great autonomous international institute for research into the problems of the economic development of poor countries.

*SID contri-  
butes, but  
not enough  
with such a  
type of  
professional  
society.*

The institute would help to break down the barriers between the theorists of economic development in rich and poor countries and the practitioners in rich and poor countries and in international development agencies. The margins of error in the basic statistics about the under-developed countries would be narrowed. Economic theory would be enriched by practice. Practice would be improved by theory. Economic advice to poor countries from



their own experts and from the World Bank and other outside agencies would be more authoritative, more helpful.

One of the first tasks of the new institute might well be to establish for each of the principal aid-receiving countries a provisional estimate of the opportunity cost of capital in that country for, as the London Economist has recently pointed out, "Whether the opportunity cost of capital is calculated at 8 or 12 percent will often sway the bitterest technical argument on roads versus railways or conventional versus nuclear power".

The work of such an institute would thus in time result in greater agreement than exists today on the techniques which should be followed by the World Bank in comparing, for example, the benefits to a certain poor country of building a fifty million dollar nuclear power plant or of spending that fifty million dollars on more imports of fertilizer and on the construction of fertilizer plants as part of a crash programme on agriculture which would bring fertilizer, new seeds, water and insecticides to the farmer at prices and on credit terms advantageous to him.



Even today, however, there is sufficient agreement on the techniques of economic analysis as to warrant much greater use by aid giving and aid receiving countries of the World Bank's expertise in assessing the comparative merits of alternative projects of economic development.

I therefore suggest that, before a member of the World Bank agrees with a poor country to help finance a big project of economic development in that country, the two countries should jointly ask the World Bank to make an assessment at their expense of the economic benefits of the project, using the most sophisticated techniques of analysis which are available, particularly the opportunity cost of capital.

The World Bank has in the past been reluctant, mainly because of shortage of skilled staff, to accept the responsibility of assessing projects other than ones which it itself may finance. But the World Bank is accustomed to twisting the arms of aid givers and aid receivers. It would do the World Bank no harm to have its own arms twisted occasionally by the aid givers and the aid receivers.



If, before aid givers and aid receivers were to commit themselves to a big project of economic development in a poor country, they were to secure an assessment by the World Bank of its economic benefits, they would protect themselves against pressures from special interests with special objectives: pressures from salesmen for fertilizers, salesmen for pesticides, salesmen for nuclear power plants, for example; pressures from single-minded enthusiasts for fertilizers, pesticides and nuclear power plants, for example.

There would be less danger that pressures in the giving country from the exporters concerned added to pressures in the receiving country from the advocates of prestige projects would lead to a waste of the scarce resources available to poor countries for their economic development. Such waste on a large scale has taken place in the last fifteen years, notably by the building of steel plants in underdeveloped countries.

In some poor countries such as India, steel plants, if efficiently managed, will yield high real rates of economic return. They can be good investments. They will speed up the whole process of economic growth. But there are at least half a dozen poor countries whose pace of economic advance has been slowed down in the past fifteen years because they built steel plants instead of investing their limited resources in projects of higher economic priority.



A great Western European statesman was talking to me some years ago about the economic development programme of a poor country whose president had just been visiting him. He said: "This country has a very sensible development programme." He paused. "No steel plant." His simplification was the simplification of the political realist. For that country at that time to include a steel plant in its development programme would have been to demonstrate that it was not serious in its efforts to raise the standards of living of its people.

Agreement by aid givers and aid receivers on going jointly to the World Bank with a request for an expert assessment of a big project of economic development before they commit themselves to it would protect the tax payers of giving countries against their aid not doing as much good as it should to the economic development of poor countries. Most important of all the precedents established in making the best use of international aid would help the leaders of the poor countries to make a wiser use of all their resources for development, whether these resources are derived from foreign aid or domestic resources, from private foreign investors, from taxes, from the profits of publicly-owned enterprises, or from domestic savings. And it is only if they make a wise use of all their resources that the poor countries can lift themselves out of their poverty.

There is another and very different way by which the leaders of poor countries can be helped to make a wiser use of all their resources for development. Their task of



persuading their legislatures and peoples to support policies which are likely to result in the wisest possible use of all their resources will be increased if the leaders of rich aid-giving countries and the international officials concerned with international economic aid make clear in public and in private that they understand the profound difference between the contributions required from rich countries and from poor countries if the international campaign against poverty is to succeed. They must make clear that they understand that while rich countries must, out of their wealth, give much more aid to poor countries, poor countries must, out of their poverty, make intolerable sacrifices.

It is particularly important that they make clear that they realize the weight of the tragic burden borne by the political leaders of the poor countries who know that, if their country is to lift itself out of its poverty, they must hold down increases in consumption by the poor; they must put off doing much to reduce inequalities and inequities among regions and among groups within regions; they must sacrifice today's goods for tomorrow's hopes.

Out of their poverty, out of their very scarce resources of materials and skills, the poor countries, if they are to succeed, have to squeeze out a greater proportion for economic development. They have to be willing to postpone indefinitely the prestige projects, which may be big dams, or



steel plants, or nuclear power plants, or international airlines, or new capital cities, if these yield a low real rate of economic return. They have to concentrate on projects which have a quick and a high yield. Most of them have to concentrate on agriculture. Most of them have to curb their population growth. They have to be willing to change many of their traditional patterns of life and thought which constitute impediments to rapid economic growth. They have to be willing to participate to the full in outside expert investigations into their domestic economic affairs and to consider sympathetically the conclusions of those investigations. They have to accord the World Bank three basic rights: the right to be informed, the right to warn and the right to encourage.

This can be bitter medicine for proud poor countries and it is only proud countries which are worth helping.

As for the outside experts who participate in investigations and in dialogues on development with poor countries, much is required of them. For the giving of advice is a delicate and a hazardous occupation.

The giver of advice can usefully remind himself of four things. First, that human judgment is fallible. Second, that luck or providence or the unpredictable plays a large role in economic development. Third, that while it is a good thing for poor people to have more to eat and to wear, better places to live in, more and better nurses, doctors



and teachers, and less illness, it is a better thing for them to have these goods without sacrificing those ancient values of their society which can give them a feeling of belonging to a group, a sense of dignity and the possibility of serenity. The fourth thing which a giver of advice to a poor country can usefully remind himself of is that, even if final truth has been revealed to him, he is not Moses laying down the law from Mount Sinai. He is a partner speaking to a free and equal partner. For him, success is measured not by the wisdom of the advice he gives but by how much of his wise advice is accepted. His task is one of persuasion. When he intervenes with advice his "intervention should be in the least abrasive, the least corrosive way possible."

During the three years I was with the World Bank, I became deeply involved in discussions with poor countries about loans and studies and consultants and advice. During those years I found myself thinking of a statement by the great Indian poet and philosopher, Rabindranath Tagore. In one of his essays he was contending that in India in the past the use of wealth had been subject to what he called "the strong pressure of social will". "The donor," he wrote, "had to give with humility; the Sanskrit saying 'Sradhdhaya Deyang', Give with reverence, is significant."

Those of us in the rich countries who are called upon to give advice and money to the poor countries can usefully meditate on this saying: "Sradhdhaya Deyang", give with reverence, give with humility.



NOT FOR OUTSIDE USE

ADDRESS BY MR. ESCOTT REID AT HIS FAREWELL LUNCHEON

(Bank Dining Room - Monday, July 19, 1965)



Mr. President, gentlemen, my former colleagues in the diplomatic corps, excellencies, ex-excellencies and about to be excellency, my colleagues in the Bank, Executive Directors and Staff:

I was at the first meeting of the Security Council of the U.N. Van Kleffens gave one of the first speeches. When he addressed the Security Council he said "wise and very prudent gentlemen" and when I address the Executive Directors and the senior staff of the World Bank I say, "wise and very prudent gentlemen." I start by paying this tribute to the Dutch because of the great role which the Dutch have played in the history of the Bank. I understand that it was said of the Bank in its early years that it was run by the Dutch in the interests of the British at the expense of the Americans.

I'm most grateful to you, Mr. President, for this opportunity you have given me to say goodbye to my friends and colleagues. I am particularly happy to see here this afternoon many of my colleagues who worked with me in the South Asia and Middle East Department, many members of the senior staff, and the Executive Directors representing the countries in the area in which I worked. I'm very happy to see Phil Talbot,



Bill Gaud, and Bill Macomber, the Ambassador of Pakistan and colleagues with whom I have served in previous incarnations: The Ambassador of Germany, the Ambassador of the U.A.R., Mr. Livingstone Merchant, and the Ambassador of Canada.

It was a happy thought of yours, Mr. President, to ask Geoffrey to speak, who is the person in the Bank whom I have known longest. The person second to him, apart from my son, is John de Wilde. He and I knew each other in one of our previous incarnations when I was trying to run the Canadian Institute of International Affairs in Canada and he was with the Foreign Policy Association in New York.

As my colleagues in the diplomatic service well know one of the greatest temptations in diplomacy is to give a long farewell speech, in which you say all the things, particularly about your host country, which you've been wanting to say for about three or four years and haven't dared say. This is an error which a good diplomat does not fall into. In order to lessen the temptation to commit this error, I wrote the essay you referred to, 17,000 odd words, on the future of the World Bank. In the Canadian Foreign Service there is a special type of telegram which is headed "Canadian eyes only" and I also have had the honor of presenting you with a piece of paper "for President's eyes only" on



administration. So now I am relieved from the temptation to speak my mind about the future of the World Bank or about the administration of the Bank.

I will quote only one passage from my valedictory memorandum on the World Bank. That passage is an inadequate summary of the accomplishments of the President during his two and a half years of office: "The staff of the Bank is becoming more international, less predominantly Anglo-American. The Bank has gained experience in conducting economic investigations of its member countries in greater depth, and in using these investigations as a basis for candid dialogues on development. The Bank has gained experience in coordinating the activities of aid givers and aid receivers through consortia and consultative groups. It has gained experience in operating its soft loan department. It has put increasing emphasis on its desire to lend for agriculture and it is now beginning to do for agricultural development banks and agricultural credit institutions the same sort of thing which it has successfully done for industrial development banks. It is increasing its lending for vocational and technical education. In order to increase wise lending for agriculture and education the Bank has made partnership agreements with FAO and UNESCO under which these



institutions help the less developed countries to identify and prepare agricultural and educational projects for Bank and IDA financing.

The Bank has improved its relations with its sister institution, the International Monetary Fund, and also with the UN Special Fund, the Inter-American Development Bank and the European Development Fund.

It is now more flexible than it used to be on the terms of Bank lending; some loans have longer maturities and longer grace periods; loans to countries which can afford it have higher interest rates.

It is giving more technical assistance to its poorer member countries, more help in preparing projects for submission to it. It is beginning to break away from the confinements of an ideological hostility to public enterprise in manufacturing industry. The administration of the Bank has been improved.

You said to me once, Mr. President, that you decided when you took over the presidency that you would make up your mind in the first six months of your appointment on the main reforms you were going to make and then you would try to carry them out in a year and a half. You are only six months behind.

I want to speak here for a moment in my new role as a professor of political science. I suggest that George Woods as President of the



International Bank will be long remembered for his contribution to the theory and practice of international administration. I was at the San Francisco conference in 1945, and I took part in some of the discussions preceding San Francisco about the role of the economic and social council. Howard Johnson knows about these discussions. He knows about the concept which we had, that in the United Nations we would not make the mistake we had made in the League that the governing body - the council - would have responsibility for both political and economic affairs, but we would establish two institutions, one a security council and one an economic and social council. If the security council failed then at least the economic and social council might be able to continue to make its contribution. Along with the economic and social council there was to be established a great galaxy of specialized agencies in various fields. The council and the specialized agencies would be the agents of the nations of the world in a coordinated massive sustained attack on the economic and social causes of international friction and war and on unemployment, poverty, and disease. It was to be a massive sustained and coordinated attack.



What happened was not unexpected. The specialized agencies once established stressed their autonomy; there was a temptation to go in for empire building; there was a growth of separatism and jealousy. What you, Mr. President, have done, and I can think of no other specialized agency of the United Nations where the head of that agency has done what you have done - you have broken with this bad tradition. You have emphasized the importance of the World Bank building up cordial cooperative relations with the Economic and Social Council, with the Special Fund and with the other specialized agencies of the U.N. You have indeed made treaties with the Food and Agricultural Organization and UNESCO which have put new life into FAO and UNESCO. As a result of what you have done, I hope and believe that we may be back on the road to the grand design of the San Francisco Conference.

I also want to pay a tribute to you as a great diplomat. I know you sometimes use the term diplomat as a term of contempt. You know the old story about the difference between the diplomat and the lady. When the lady says no, she means perhaps; when she says perhaps, she means yes; when she says yes, she's no lady. When the diplomat says yes, he means perhaps; when he says perhaps, he means no; when



he says no, he's no diplomat.

You have never used, so far as I know, the normal diplomatic formulas for saying no, but you have invented a wonderful set of your own which I would like to bring to the attention of the ambassadors and future ambassadors present. One formula which you use is, "I hear what you say." When you say, "I hear what you say," it means "I disagree with what you say. I've heard quite enough from you and I don't want to hear another word on the subject." You have another formula when that doesn't work which is, "It's a question of taste." That means, "I'm right. You're wrong, and I'm not going to argue with you." And the third, "Your ideas and mine are 180 degrees removed." That means, "There is no point in your arguing.

You are also a believer in another of the great precepts of diplomacy which is that you never say "never;" you always leave doors open. And I have begun to believe that often when you use one of your formulas for no, what you are really saying is, "If I were you I would go back to your office and think this problem through again and the next time you talk to me about it, you'd better be



able to marshal your arguments a little better than you have this afternoon."

I hope Mr. President that you will not do what you once threatened to me that you were going to do and this is, that when you had carried out the reforms which you had decided on during your first six months you would rest on your oars. I'm sure you are much too restless a character to rest on your oars. It is partly for that reason that I have presented you with the 17,000 word memorandum on further reforms which might be made in the World Bank in the course of the rest of your term of office.

You once said to me that there was a curious coincidence between many of the ideas I had about reforms in the World Bank after six weeks here and the ideas which you had after six weeks here. I hope there will be a similar coincidence between the views which I have after three years here and the views which you will have after three years here.

You have set me an example of how to behave when you take over a new institution, but I've decided to go you one better. You decided on the reforms you wanted to make, six months after taking office. I decided six months before taking office as principal of



Glendon College in York University, Toronto, on the reforms which I want to make, and I am trying to get them accepted before I take over. This is meeting with some, perhaps understandable, resistance, on the part of some of the professors at the university. All I can ask for are your prayers for my success - or your prayers for those unfortunate professors.

I want to give thanks here for the opportunities I've had in the past three years to learn about problems of international economic development; the opportunities I've had to make friends here whom I am hoping to see often from now on because Toronto is not far from Washington. I want to thank the Bank for the opportunities it has given me to revisit from time to time the country which I feel is my second home - India - and to extend my feelings of affection for India to the whole sub-continent; to learn increasingly more about India's great neighbor Pakistan and to develop, as the months and the years went by, an ever greater affection and respect for Pakistan. I thank you for the opportunities I've had to learn a little about the other countries in my area, Nepal, Afghanistan, Iran, the Middle East and the UAR. I hope that I may have started some things in that area which will bear fruit. I've not accomplished all that I hoped



to accomplish. Naturally there have been many disappointments. I'm sorry that there has been such a slow rate of commitment for India. Indeed I believe in my whole period as head of the South Asia and Middle East Department we didn't give one Bank loan to India. I'm sorry that there have been difficulties in the Bank's relations with Iraq and the UAR.

I want to thank the Bank for two particular tributes to me on my departure. The first was your request, Mr. President, that my advice to aspiring development diplomats be printed in Bank Notes. The second was the change in the name of my department. It used to be the South Asia and Middle East Department and when I left it became the South Asia Department or the SAD department. This I thought was a pleasant tribute.

I leave my interests in good hands. I leave the bulk of my old department in the good hands of Sandy Stevenson and Noel McIvor, and the Middle Eastern part in the good hands of Raymond Cope and Doug Fontein. I leave the representation of the international trade union of ex-ambassadors with Mr. Livingstone Merchant. I leave the representation of the Reid family with my son Patrick as the Alternate Executive Director for the largest part of North America, plus Ireland and Jamaica.



In my former profession I used to present a letter of credence from Her Majesty to the President or Head of State of the country I was accredited to. The letter of credence ended with language very similar to the language which I am now about to use in respect of my son: "I therefore request that you will give entire credence to all that Patrick Reid shall communicate to you in my name, more especially when he shall convey to you the assurances of the lively interest which I take in everything that affects the welfare and prosperity of the World Bank."

I now come to my peroration. The World Bank is now twenty, twenty-one years old. It's reached maturity. It has accomplished great things. In the last ten years it has trebled its activities. I think it should treble its activities again in the next ten years. I think that the World Bank must prepare itself now for immensely greater tasks. I think that we have merely reached now the end of the first chapter in the history of the World Bank. This is the end of the beginning. What is past is prologue.



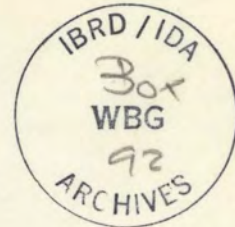
F- Escott Reid speeches  
(no carding)

NOT TO BE RELEASED BEFORE  
7:30 P.M. WED.  
FEB. 1ST, 1967

CANADA IN WORLD AFFAIRS

OPPORTUNITIES OF THE NEXT DECADE

Address at the Annual Dinner of the  
Canadian Centenary Council, Chateau  
Laurier, Ottawa, February 1, 1967,  
by Escott Reid, Principal, Glendon  
College, York University, Toronto,  
and formerly Canadian High Commissioner  
to India, Ambassador to Germany, and  
Director of the World Bank's operations  
in South Asia and the Middle East.



I shall, in my speech tonight, talk about  
what I believe to be the most important creative  
tasks for Canada in world affairs in the next decade.

I can hear some Canadians saying, "Why should  
we bother about taking creative action in world  
affairs. We have enough problems cultivating our  
own domestic garden. We have enough problems arising  
out of day-by-day relations with our neighbours to  
keep our External Affairs Department busy and out of  
mischief. Anyhow, the great powers run the world  
and they won't listen to us".



There are a number of possible answers to this. I'll give some that occur to me.

The first is: That is not the kind of people that we are. We Canadians have in the past made constructive contributions to world affairs, contributions which have been large for a country of our size and power. They are a part of our national heritage. We intend to continue to make constructive contributions to world affairs.

The great Irish poet, W.B. Yeats, was one of the representatives in the Senate of Ireland of the Protestant minority. He rose in the Senate of Ireland once to protest against legislation which he claimed was directed against his people, the 200,000 Southern Irish Protestants. "We", he said, "are no petty people. We are one of the great stocks of Europe. We are the people of Burke; we are the people of Grattan; we are the people of Swift; the people of Emmet, the people of Parnell. We have created the most of the modern literature of this country. We have created the best of its political intelligence."

Yeats spoke thus of a people who number less than one per cent of the population of Canada and



yet he called them, quite properly, one of the great stocks of Europe. And what Yeats said of his people's contribution to Ireland, I say of what our people, the people of Canada, have contributed to world affairs: "We Canadians are no petty people. We are one of the great stocks of the Western World. We are not the kind of people to remain passive while others decide our destiny for us."

"A nation", Frank Underhill has written, "is a body of people who have done great things together in the past and who hope to do great things together in the future." This nation has done great things together in world affairs. We can do greater things in world affairs in the future.

I have quoted one great poet, an Irishman. I'll quote another great poet, an Indian, Rabindranath Tagore. He said, "Each nation has a special problem given to it by God, and it finds its salvation by solving it rightly. Hence the Sanskrit saying, VEERABHOGYA VASUNDARA, the world belongs to the valiant."

It is a dangerous thing for a great power to come to believe that it has a Messianic role to play



in world affairs. I am not so sure that it might not be a good thing for Canada to come to believe, if not that it has a Messianic role to play in world affairs, that it has a very special creative role to play. I think it has.

MacKenzie King, in the twenties and thirties, sought for a foreign policy that divided us the least. During the last years of his regime and under his successor, Louis St. Laurent, we began the search for a foreign policy that united us the most. Let us, in this centennial year, continue that search. An active, creative foreign policy can help to unite this nation.

There was, I think, a golden age in Canadian foreign policy -- a period when, because of a peculiar and temporary set of circumstances, we in Canada became, on certain great issues of world affairs, one of an inner group of three countries which moulded the shape of the future. This golden age of Canadian foreign policy lasted about ten years from the fall of France to the early years of NATO -- roughly from 1942 to 1951.

The issues on which we became one of the top three Western powers along with the United States and



Britain had to do, not with the waging of war, but with the creation of post-war international institutions. It was, for example, British and Americans, with assistance from Canadians, who created the International Monetary Fund and the World Bank. The same was, I know, true of the international conference on civil aviation at Chicago in 1944 which founded ICAO. It was, I think, true of the formation of UNRRA and FAO. It was most certainly true of the long negotiations on the formation of the North Atlantic Alliance, negotiations which lasted from the early months of 1948 until March of 1949. That alliance is the child of the United States, Britain, and Canada. Our successful crusade for that alliance is a bright page in our history.

Why and how were we able to play such an important role in the decade from 1942 to 1951? It was, I suggest, because of two things. First, a gap had been created in the Western World. Second, we organized ourselves so that we could move into that gap.

In the war years, virtually the whole of Western Europe was in the hands of the enemy. In the immediate post-war years, the European governments were so weakened by war and occupation, so heavily involved in reconstruction, so dependent on the



United States, that they were not able to take their traditional place in the concert of powers.

The second reason we were able to play the role we did from 1942 to 1951 was the intellectual and emotional drive of a relatively small group of cabinet ministers and senior officials, Intellectual ability of a high order. Hard creative work. A sustained determination that Canada should do all that it could to help create a great galaxy of international institutions which might make depression and war less likely.

If there is a moral to be drawn from the golden age of Canadian foreign policy, the moral is surely this. Where there is a gap and where we in Canada have prepared ourselves to act and act wisely - we can play an important role in world affairs. What is the biggest gap today in the defences of civilization? Is it the kind of gap which Canada can move into?

I submit there can be no doubt about the answer. The most serious gap in the defences of civilization is the gap between what the rich developed nations of the world should be doing to help the poor countries speed up their economic development and what they are, in fact, doing. It is a gap which Canada can move into.



Here, may I make three points very clear.

The first is that without greatly increased foreign aid and without greatly increased opportunities to build up their foreign trade the poor countries of the world cannot lift themselves out of their poverty. Greater aid and greater trade are essential. But by themselves they are not enough. All they can do is to supplement what the poor countries do for themselves.

Out of their poverty, out of their very scarce resources of materials and skills the poor countries must squeeze a greater porportion for economic development. If prestige projects yield a low real rate of economic return, they must be willing to postpone them indefinitely - big dams, steel plants, nuclear power plants, international air lines, new capital cities. The poor countries must concentrate on projects which give a quick and a high yield. Most of them must concentrate for the next ten years on increasing their production of food and on decreasing their production of children.

The second point I want to make clear is this. Increased resources for foreign aid mean sacrifices by the peoples of rich countries, not sacrifices in our present standards of living but a giving up of a



part of those future increases in our standards of living which we can reasonably look forward to. Increased foreign aid for Canadians means levels of taxation higher than they otherwise would be. Unless, of course, we in Canada are prepared to finance an increase in foreign aid by increasing our imports of capital from abroad. I assume we don't want to do that.

The third point I want to make is that the amounts of foreign aid I shall talk about either for Canada or for the whole of the Western World are relatively very small.

The value of the present net long term official aid provided every year by all the rich countries of the Western World to all the poor countries of the world is just about the same as what one nation of the Western World, the United States, spends every year on space research.

If the Western World had last year increased its aid by just one-tenth of last year's increase in its income, the flow of aid from the West to the poor countries would have doubled.

In recent years, Canada has been raising the level of its foreign aid by \$50 million each year.



\$50 million is less than 2 per cent of the annual increase in our wealth, since the annual increase is running at a rate of about \$3 billion a year. Two per cent of that would be \$60 million.

In the past six years, the rich countries of the non-communist world have got a great deal richer. Their combined gross national products have been increasing at about \$50 billion a year and have reached a level about 300 billion dollars a year higher than the level of six years ago.

The rich countries have not shared any of this vast new wealth with the poor countries. The net flow of long-term official aid from those rich countries to the poor countries fluctuated during the past six years between four billion and four-and-a-half billion dollars a year. (This figure of four to four-and-a-half billion dollars is an estimate of the net flow of long term official aid to countries with per capita incomes of less than \$250 a year. The net flow is defined as disbursements less interest charges and amortization on past loans).

If we of the Western World persist in our present policies on aid to poor countries, we will have



earned the contempt of our children and our grandchildren. They will have every right to blame us for the kind of world we will have bequeathed to them. They will not easily forgive us for our short-sighted and ignoble policies on foreign aid.

Here is the most serious gap which exists today in the defences of civilization. Here is an opportunity for Canada to play a creative role in world affairs.

If Canada were to spend another 700 million dollars a year on defence, this would increase the defence expenditures of the NATO countries by less than one percent. If Canada were to give another 700 million dollars of aid to poor underdeveloped countries to help them speed up their economic development, this would increase the net flow of aid from the NATO countries to poor countries by about fifteen per cent.

I do not suggest that we immediately increase our foreign aid expenditures by 700 million dollars a year. What I do say is this: Canada has, during the past few years, been setting an example in foreign aid by the steady annual increases in the amount of our foreign aid and by the intellectual leadership which Canadian cabinet ministers and civil servants



have been giving in the international aid effort. We started from a low level but we have been increasing our aid effort by 50 million dollars a year until it has now reached a level of 300 million dollars a year. The Government has announced that it intends to continue to increase our aid effort until we reach a level of one per cent of our annual production of goods and services.

What I plead for tonight is that the voluntary organizations represented on this Centenary Council organize public support behind this courageous decision of the Government and that the voluntary organizations say to the Government: "We congratulate you on what you have done. We want you to go further and faster. We will do everything we can to enlist public support behind a much larger aid effort. We want you to move at a faster rate. We want the target not to be one per cent of goods and services but a billion dollars. We hope you can reach this goal in five or six years' time. We want a substantial part of this increased aid to go to the International Development Association, the World Bank's agency for granting soft loans to hard projects in deserving poor countries. We will make clear to the Canadian people that



increased foreign aid on this scale means that the Government would, through taxation, have to divert real resources from use in Canada to projects which add substantially to the income of developing countries."

Such a campaign by the principal voluntary organizations of Canada would be the best contribution they could make to world peace in this centennial year.

More is of course needed than larger appropriations for foreign aid. The moral of the golden age of Canadian foreign policy is that you fill gaps in the defences of civilization not only with money but also with sustained, creative, crusading, tough, intellectual activity by the Government.

There is, I know, this kind of activity in the Canadian government service on problems of foreign aid, but far too heavy a burden is being laid on far too few people. Their ranks have recently been strengthened by the appointment of Maurice Strong to head the Canadian External Aid Office. But if we are to take the place we can take in the forefront of the battle against world poverty, we need to strengthen very greatly the ability of the Canadian Government both in Ottawa and abroad to develop policy on foreign aid



and to administer it. We need to recruit many more of the ablest social scientists, engineers and administrators in Canada, men who are driven by a passionate concern for the welfare of the poor peoples of the world, men of intelligence, industry, zeal and integrity.

We need to strengthen the ranks of the Government services so that men of this kind who are now in the public service may be relieved of all or a substantial part of their ordinary duties so that they may devote time to the task of studying how the whole international effort to help poor countries speed up their economic development can be made more effective.

Canada is in a peculiarly good position to undertake this catalytic task. There is no country in the world which has so many men in its cabinet and in the senior ranks of its public service who have worked on the problems of international economic development for the last twenty years or more. Canada has some of the best of the younger experts in the world. The Canadian Government service is small enough for these people to know each other.



What is needed is a mobilization by the Canadian Government of the intellectual resources required and the assignment of clearly defined tasks.

The immediate task is to increase the financial resources made available by the rich countries of the world to such international agencies as the World Bank, the International Development Association, the regional development banks for Asia, Africa and Latin America, and the United Nations Development Programme.

A Canada which had announced that it intended within five or six years to increase its foreign aid to well over one percent of its annual production of goods and services would be in a position to take a lead in an international campaign to mobilize more resources for those agencies.

The longer run task is to strengthen the international agencies not only by more money but by a critical international examination of how they can be made more effective instruments in the war against world poverty. And not only the agencies I have mentioned but also the other specialized agencies of the United Nations, notably F.A.O., WHO, I.L.O., and UNESCO, the United Nations Conference on Trade and



Development, the GATT, the Organization for Economic Cooperation and Development, and its Development Assistance Committee, and the Colombo Plan.

If the international agencies are to be more effective in stimulating the economic development of poor countries they must be brought up to date.

I have talked about the golden age of Canada's foreign policy in the forties and early fifties when Canada was one of an inner group of three countries which moulded the shape of many international economic and financial agencies. That is just what is wrong now with some of those agencies. They still reflect the distribution of economic power in the second half of the forties, when Canada was one of the top three Western powers.

Other agencies suffer from a different but equally serious defect. In them, efficiency of operation is being sacrificed to what is called the principle of equitable geographical distribution.

A number of the agencies established fifteen years or more ago also reflect an age when the wealthy nations were not as conscious as they are today of the needs of the underdeveloped world and of the urgent



importance of dealing with the problems of the underdeveloped world. Moreover, at that time, none of us, whether we lived in rich countries or in poor countries, knew as much as we know today about the mysterious complexities of the problem of how to speed up the economic development of poor countries.

Canada would thus be making a most significant contribution to the war against world poverty if it strengthened its corps of experts on this problem in the public service and if this corps of experts were instructed to examine in turn each of the international agencies concerned with the economic development of poor countries and to draw up recommendations on what steps should be taken to make each of them more effective in promoting the economic development of poor countries -- by changes in their practices or management, by increasing their resources, if necessary by changes in their constitutions. The recommendations of the Canadian experts would constitute a basis for discussions with other countries. Gradually, a consensus might emerge.

It is, I have argued, in foreign aid that there is the most serious gap in the defences of civilization



-- a gap which endangers the security and welfare of the people of Canada and which the people of Canada can help to close by throwing in more money, more brains, more crusading zeal.

Where is the next biggest gap in the defences of civilization? Is it not in knowledge and understanding, particularly on this continent, of what is happening in a quarter of the world - China?

I am not going to talk about what Canada might do in the next few months or in the next year. Probably very little if anything can be done during the present period of turmoil in China. I am going to talk about opportunities for Canada to do something during the next ten years to help close the dangerous gap between China and the rest of the world.

It is now eighteen years since the United States and Canada withdrew their embassies from China. The embassies were an important source of current information. What is more important, they were training grounds for foreign service officers to become experts on China.

The work of the embassies in training experts on China was supplemented in the years before 1949



by the Christian missions in China. Many of the greatest Chinese experts in North America were children of missionaries and had been brought up in China. These missions have been forced out of China. They are no longer nurseries for future experts on China. They can no longer produce a Chester Ronning who later returned to China as a Canadian diplomat.

There is thus an ever-diminishing amount of expert, recent, first-hand knowledge and understanding of China in the Department of External Affairs in Ottawa and in the State Department in Washington.

The United States has, I am sure, a vast and most efficient apparatus for collecting information about what is going on in China and analyzing it. But there is probably now no one in the State Department under about forty-five who has that kind of percipience about China which can only come from having recently lived in it for a number of years. Obviously, the more one can move about a country and talk freely to its people, the greater the degree of percipience which can be acquired. But a skilled diplomat - or newspaperman - even if he has to live in a diplomatic ghetto in Peking, will learn something of the inwardness of the country which the



expert stationed outside the country can never acquire - and his percipience can correct and supplement the percipience of the outside expert.

Moreover, it would certainly be unwise to assume that the present restrictions on the activities of diplomats and newspapermen in Peking will last for the next ten years, and that is the period I am talking about.

Suppose that within the next two years Canada were able to work out an agreement with China for the establishment of a Canadian embassy in Peking. Suppose Canada were to maintain at that embassy four of our most brilliant foreign service officers for periods of two years. Suppose that this period of service in China had been preceded by two years or so of concentrated study at a first class institute for the study of contemporary China and were followed by further work on China. What would be the result ten years from now? The result would be that we would have built up a group of sixteen or so officers in the Canadian foreign service with considerable knowledge and understanding of China.

If the United States should unfortunately not find it possible to move at the same speed as



Canada, the existence of these Canadian experts could be of great importance in increasing North American understanding of China by supplementing the information which the United States was able to secure from its own sources. If, which God forbid, as the old treaties would say, the United States even ten years from now had not been able to establish diplomatic relations with China, there might well be nobody in the State Department under the age of about fifty-five who had had the kind of recent first-hand knowledge of China that the sixteen Canadian experts would have had.

When the United States established diplomatic relations with the Soviet Union in 1933, it sent to its new embassy in Moscow some of the brightest young men in its foreign service. Among them were George Kennan, Gohlen, Llewellyn Thompson. All three later served as ambassadors to the Soviet Union. All three have contributed greatly, over the last thirty years, to the long, slow, patient process of bringing about better understanding between the Soviet Union and the United States. Indeed, between the Soviet Union and the Western World.

The American Embassy in Moscow in the thirties was a forcing ground for talent on Russia which has



served well the whole of the Western World. I should like to see the Canadian Embassy in Peking in the seventies be a forcing ground for talent on China which could serve well the whole of the Western World.

If Canada is to play the role it could play in the long-laborious task of reaching a modus vivendi between the rest of the world and China, more is, of course, required of Canada than the training in the Canadian foreign service of experts on China.

The Toronto Globe and Mail has been making a significant contribution to a better understanding of China by maintaining a full-time correspondent in China. I very much hope that it will be possible for a number of other Canadian newspapers and agencies to follow the Globe's example. There are only four full-time Western press representatives in China. The other three are representatives of news agencies -- British, French, German. The Toronto Globe is the only newspaper in the whole of the Western World with a full-time correspondent in China. Canada can be proud of the example the Globe has set.

Voluntary associations in Canada can intensify



their efforts to get in touch with Chinese scholars, professional men, administrators.

Above all, the universities of Canada should cooperate in establishing a first rate institute in Canada for the study of contemporary China. It is a national disgrace that there is no such institute in Canada today. Such an institute could become one of the great centres in the world for the study of China. To it our foreign service officers would go for two or three years before they were posted to China. To it they would return to make reports and to continue their studies when they came back from China.

To it would go newspapermen, businessmen, scholars for training. To it newspapermen, businessmen, scholars, who had lived in China, would return to study and teach and write. To encourage such an institute of Chinese studies, the federal government should inform the universities of Canada that it is prepared, through the Canadian Council or in some other appropriate way, to make not only a generous capital grant but also an annual operating grant. It should also provide every year, say, twelve scholarships of \$5,000 a year tenable for three years at the institute by brilliant young Canadian university



graduates. This expenditure of \$180,000 a year on scholarships to the Canadian institute of Chinese studies might turn out to be the best investment Canada has ever made.

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In the next ten years as in the past hundred years we, in Canada, will be beset by many harassing problems in foreign affairs. A country of Canada's size has only limited resources of wealth and manpower to devote to foreign affairs. If it is to make the maximum impact it must select areas where it is likely to make the best contribution -- the contribution most likely to serve the welfare of the people of Canada.

The two great problems of the last third of the twentieth century are the economic development of poor countries and the relations between China and the rest of the world. We must speed up greatly the rate of economic advance of poor countries. We must move quickly to narrow the gap between China and the rest of the world. Otherwise, the prospects for our children's children are bleak indeed.

I have suggested that Canada can by its



actions and its example make a substantial contribution to the solution of these two problems -- a contribution much more substantial than its mere size and wealth would warrant. Here is a task worthy of Canada as it enters the second century of its existence.



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# VIEWS and COMMENTS

## Aid-who knows best?

Extract from Escott Reid's new book *Strengthening the World Bank* being published in September by the Adlai Stevenson Institute, Chicago, Ill., U.S.A., \$7.50, £3, or Rs. 40. Mr. Reid was director of the South Asia and Middle East Department of the World Bank from 1962 to 1965.

"There is general agreement that the purpose of aid from the World Bank Group and other agencies is to make it easier for the governments of developing countries to pursue sensible development policies. The disagreement is over who is to be the arbiter of what are and what are not sensible development policies. There are two extreme theoretical positions. One is that the government of the poorer country should be the sole arbiter; that it alone can be considered by an international agency or by another government as the interpreter of the country's system of values and development priorities, its social goals, and the aspirations of its people; that aid agencies must not question that government's decisions but must assist it to carry them out expeditiously and efficiently. The other extreme position is that the aid agencies know what is best.

"Neither of these two positions will come within the scope of practical politics in the foreseeable future. Both of them are non-starters. Until aid on concessional terms can be financed largely from sources other than taxes imposed by the governments of rich countries on their citizens, these governments will be compelled by the realities of the domestic political process to adopt policies on aid which will enable them to convince the taxpayers that they are making reasonable efforts to ensure that the aid financed out of their taxes is being well used. This applies to their own bilateral aid programs and to the multilateral agencies they contribute to, such as the World Bank Group, the regional banks, and the UN Development Program. As for the other extreme position, sentiment in the

poorer countries limits both the willingness and the ability of their governments to accept intervention by aid agencies in their affairs. They are compelled by the realities of their domestic political processes to adopt policies which enable them to assure their citizens that they are not sacrificing the independence of their country in return for aid.

"Proponents of all the schools of thought on international aid are compelled to accept, however reluctantly, the need to apply some system of rationing to the flow of aid money, since this money is scarce, and the softer it is the scarcer it is. . . .

"What is at issue is not the need to establish a rationing system but the nature of the rationing system and, in particular, the extent of intervention in the affairs of aid-receiving countries which it entails. Those, both in the poorer countries and in the rich countries, who favor a relatively high level of intervention. . . believe, however, that aid agencies should limit their intervention to broad and central aspects of development policy, and express opinions on these only after penetrating investigation. Aid agencies, in striving to come to agreement with the poorer country, should make all reasonable concessions to reach agreement. If a reasonable compromise cannot be reached, the agencies should, in the interest of the poorer country, substantially reduce the flow of aid. Those who favor intervention ask whether it is to the advantage of the people of an aid-receiving country that aid agencies accept the development priorities of the government even when it is obvious that the government is assigning high priority to prestige projects which promise less economic and social returns than other, less ostentatious, projects. . . .

"Many who would most vehemently deny that they are interventionists believe that since international efforts to help developing countries will be of no avail unless those countries make major changes in their political, social, and economic policies and institutions, aid should depend on the extent to which a country meets such performance criteria as equitable income distribution, land and tax reforms, effective trade and exchange rate policies, limitation of military expenditures, and the promotion of social justice. . . .

"Radicals who attack the World Bank Group for using the "leverage" its control of funds gives it to secure changes in the policies of borrowing governments are normally opposed to any aid to governments which pursue policies abhorrent to them. In this they are supported by most liberals. . . . They believe that the quid pro quo for aid to countries with governments like these is not a mere change in government policies, priorities, or programs relating to development but a change in the regime. This attitude could be described accurately as an extreme form of intervention in the domestic affairs of a sovereign state."

