NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

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Economic development rates with military power in maintaining the peace, and bankers must act as leaders in developing support for international financial institutions, Joseph W. Barr, Chairman of the Federal Deposit Insurance Corporation, declared today.

Addressing a luncheon session of the annual convention of the National Association of Bank Women in Memphis, Tennessee, Mr. Barr outlined the work being done by the World Bank and its affiliated institutions in "quietly and effectively banking for peace for the last seventeen years." He called the World Bank family "one of the most effective working instruments for maintaining the peace," and pointed out "its task has been to create opportunities for people to earn a way out of their poverty."

American bankers can take pride in the achievements of the World Bank, the International Development Association, and the International Finance Corporation, he said, pointing to the distinguished American bankers who have headed the complex throughout its history.

This work, he said, "is just as important in terms of our own security and well-being as is the work of our defense planners and our regular diplomatic corps. If the task of the defense establishment is to maintain the balance of power in favor of freedom, the task of development diplomacy is to maintain the balance of hope in our favor and for the free world. The one without the other simply will not provide us and the free world with the security we must have."

Mr. Barr urged his audience, as experienced bankers, to lead in developing understanding of the large tasks presented to the World Bank and its sister institutions. "To me there is no more hopeful augury in the world today than the acceptance of the concept that economic development rates equally with military power in keeping the peace. As bankers this is something we can understand. I urge you all to acquaint yourselves with the programs and the problems of this great family of international institutions. When public debate arises, bring to the debate your skills and experience as bankers. This is <u>our</u> debate, and I urge you to make yourselves heard."

Attachment:
Text of speech

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BANKING FOR PEACE

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

before the

National Association of
Bank Women's Convention

at

Luncheon Meeting

Wednesday, October 14, 1964

Hotel Peabody
Memphis, Tennessee

BANKING FOR PEACE

In these times, no word is used more often in public discussions than the word "peace." And that is as it should be, for the most important work of the Federal Government these days is keeping the peace.

First of all, of course, we arm to keep the peace. We maintain in the United States an arsenal of military power greater by far than any nation today or in the past has ever maintained.

Then we parley to keep the peace. We parley with the Russians on such subjects as disarmament -- some of the most lengthy talks ever undertaken among nations, but absolutely essential to maintain the balance of hope in the proposition that the day will come when peace can be maintained without massive arsenals of destructive weapons, and without the proliferation of those arsenals in more and more nations.

We parley with our allies and in the United Nations, in a never ending search for ways and means to build a structure of law and order with which to contain forces making for war. We parley about everything from Cyprus and the Congo to South Viet Nam and Indonesia because we all know that every shot between nations today is a shot heard 'round the world.

And we work for peace in a hundred different ways through helping others to help themselves escape the worst trials of poverty, for we know that both at home and abroad poverty breeds strife.

This work can be intensely personal and direct, like the work the men and women of the Peace Corps are doing in 46 countries overseas today. This work can involve historic partnerships between the United States and the governments of key developing nations such as we have in the Alliance for Progress and in our foreign aid programs in India and Pakistan -- partnerships which serve to give substance to the promise that there is an alternative to a life of poverty and strife for the world's one billion undernourished, underemployed, and undereducated.

It is not surprising that the word "peace" should dominate the public discussions in the United States in these times. For the business of maintaining peace is an exacting, testing, exhausting business which requires of government leaders today a clarity of mind, a firmness of purpose and a breadth of understanding and experience so far beyond the ordinary as to make the problems of peace in past decades seem like mere footnotes in comparison.

I want to say a few words today about a very unusual banking institution which you might say has been quietly and effectively banking for peace for the last seventeen years. I refer to the World Bank and its sister agencies, the International Development Association and the International Finance Corporation. The World Bank family has proved itself one of the most effective working instruments for maintaining the peace; its task has been to create opportunities for people to earn a way out of their poverty.

When the World Bank opened its doors less than a year after World War II, it was very much an experiment in international cooperation and one which few bankers thought would prove to be successful. It was called the International Bank for Reconstruction and Development and it quickly became very obvious that the task of postwar reconstruction was far beyond its means. It took a Marshall Plan to help restore Western Europe and Japan.

But the idea of the Bank as a development agency, mobilizing private funds for investment in important development projects in the countries of Asia, Africa, and Latin America, has proven to be one of the great ideas of the postwar period. And American bankers can take pride in this achievement. For the World Bank has been captained from the start by a series of distinguished American bankers -- Eugene Meyer, John J. McCloy, Eugene Black, and now George Woods. And the American financial community has provided the great bulk of the Bank's funds.

The Bank started to make loans in Latin America in 1948; in India in 1949; in the Middle East and Africa in 1950. Its annual lending was only $300 million in 1951. But by 1958 it had reached $700 million, and this year, supplemented by the funds of the IDA, it topped $1 billion for the first time. Hundreds of projects in 80 different countries have received support from the Bank in the last 15 years.

It is a rare thing to be able to say of an international organization today that it has proved a financial success, an economic success and a diplomatic success. The World Bank, whose 102 member governments make it almost as international as the United Nations itself, is all of these things.

One test of the financial success of the Bank is the fact that its bonds have been floated successfully in the United States, Canada, the United Kingdom, Belgium, the Netherlands, West Germany, Switzerland, Italy, and Austria. World Bank bonds are held by private investors in virtually every non-communist country in the world today. The Bank's outstanding funded debt -- about 40 percent of it held in the United States and 60 percent outside the United States -- amounts to $2.5 billion.

The Bank's success in the private capital markets of the world, more than anything else, made possible in 1960 the establishment of the

International Development Association, through which some $1.5 billion in contributions from member governments has already been mobilized. Creation of IDA stemmed from a recognition by the Eisenhower Administration in the United States and the other member countries that many of the developing nations of the world had contracted all the debt that they could possibly service. If these countries were to continue the progress they had started, they needed a source of funds repayable over very long periods, with an initial grace period of up to 10 years, and very low interest rates. The International Development Association was designed to meet this need. The financial effect of IDA, of course, has been to reduce the Bank's effective interest rate in its borrowing countries by "mixing" with regular Bank loans IDA "credits" which normally run for 50 years with a nominal service charge in lieu of interest. I will presently have something further to say about the importance of IDA in the World Bank family. But, financially speaking, IDA has permitted the Bank to maintain its high volume of lending, while at the same time giving added protection to the whole international credit structure.

The World Bank also makes a profit. Net earnings, in fact, have been running at a rate of $100 million a year recently, resulting in accumulated reserves in excess of $850 million. So strong is the Bank's financial position that this September in Tokyo the Governors of the Bank voted to transfer $50 million out of last year's net income to IDA -- a kind of dividend, if you will, which the Governors voted to plow back into the work of the World Bank through IDA.

I stress the financial success of the Bank because you are bankers. But to me the Bank's success in what has come to be called "development diplomacy" is much more important and it is what has made possible its financial success. Through its lending policies the Bank has stimulated far-reaching internal reforms and innovations in borrowing countries.

This is an important and delicate matter. You all are familiar with the confidential relationship which exists between any banker and his client. Consider how very delicate that relationship is when a banker's clients are 80 sovereign governments or agents thereof.

However, I want to emphasize that the Bank's business is very much down to earth -- very much like the kind of business with which you are familiar. The Bank lends money for specific projects, largely in the fields of power, transportation, and communication, but also in industry and to a smaller extent in agriculture and education. The project is the important thing. Of the $8 billion which the Bank has loaned, every penny has gone to buy materials, equipment, or services for a specific project of importance to the development of a borrowing country. Economic and social change may develop in a country in which the Bank is financing projects. But these changes flow almost naturally from an improved economic climate and the Bank's lending policies rather than from direction by the Bank itself. Here again, I think this is a pattern that all of you can recognize and understand.

Typically, Bank projects are big projects -- big at least in terms of the borrower's economy. The Bank has financed the installation of more electric power in Latin America since 1950 than existed in Latin America prior to 1950. It has financed about 7,000 miles of new railroads and the rehabilitation of perhaps twice that amount. But the important thing is that each Bank project is approved only after a great many conditions are met. These "conditions" might entail new methods of internal financial controls in public utility operations, including new rate structures; they might include the reorganization of a highway maintainence department; they might include the establishment of a public authority, such as a port authority; they might include a contract to hire expert management from abroad for a number of years. However, these conditions have not been laid down by the Bank in an attempt to achieve social reform; they have been imposed to make certain that the borrowing nation will have a reasonable opportunity to pay off its loan.

What the Bank calls its "project approach" is one of the successful techniques in development diplomacy so far perfected. But the Bank has other diplomatic strings to its bow. For example, through the good offices of the Bank, India and Pakistan signed an historic agreement in 1960 on a plan to divide the waters of the Indus Basin where 40 million people earn a living only insofar as regular supplies of irrigation water can be brought to their land. In 1958 the Bank was able to effect a settlement of the claims and counterclaims arising out of the nationalization of the Suez Canal. Several important cases of long-defaulted bond issues have been settled thanks to the intervention of the Bank as a mediator. At Tokyo this September the Bank's Governors voted to send to governments a plan for a new arbitration service, to be available when foreign investors and governments together wish to ask the Banks's aid in settling outstanding disputes.

Perhaps the most interesting and complicated diplomatic task the Bank has undertaken has been to take the lead in forming from among all the major countries and institutions giving foreign aid a series of "aid consortia." Here the problems and programs of one country -- India, or Pakistan or Colombia -- are discussed regularly and in common. These "consortia" are very informal; the idea is to have a full and frank discussion both among the aid donors and between them and the borrowing government. This way it has been possible to discuss privately the basic policies of the borrowing government and to express freely and frankly any apprehensions which may exist among the aid-giving nations.

There is, of course, a very definite limit beyond which a sovereign government, or even an international organization, can go in criticizing the domestic policies of another sovereign government. Too much open criticism leads to a breakdown in communications -- an end to the possibility of cooperation; too little criticism may mean undermining the confidence of investors.

The World Bank's "aid consortia" provide an imaginative new way to establish an effective, confidential banker's relationship with the governments of some of the less developed countries.

The "aid consortia" have also provided useful opportunities for the United States and the Bank together to urge our European friends to shoulder a more equitable share of the foreign aid burden. Compared to five years ago, the European share of aid to such countries as India and Pakistan is now far more reasonable. However, I feel that most people in Washington charged with responsibility for international affairs believe that Europe can and should do more.

A particular problem which Secretary Dillon has been hammering at for over four years is the problem of terms of aid. Some European governments still offer much of their credit to the developing countries on terms which may be suitable for normal commerce among industrialized countries but which are quite unsuitable for countries that are trying to finance large development programs with a precariously small supply of foreign exchange. Three-year credit, even five-year credit doesn't make sense if the equipment being financed is a railroad locomotive or a turbo-generator for a power dam. This is a bad way for governments to finance development because it piles up heavy debt burdens in the short run, before the equipment financed can possibly be expected to bring in much of a return.

The United States and the World Bank have both taken several steps in recent years to lengthen the maturity of their loans, to extend grace periods and, particularly, to provide capital at very low interest rates -- the United States through the foreign aid program and the Bank through IDA. While some progress has been made in this direction in Europe and Japan, there is still a long way to go. Secretary Dillon accented this piece of unfinished business in his address to the Bank's Governors in Tokyo in September, and the United States will be pressing the point through the World Bank's aid consortia and elsewhere in the months to come.

Another piece of pending business before the World Bank family involves the International Finance Corporation. The IFC was formed eight years ago to provide the World Bank with an instrument for dealing with private industrial enterprises in the developing countries without the necessity of governments giving their official guarantee to each loan -- as is necessary under the World Bank's charter. IFC again was frankly an experiment; less than $100 million was contributed by member governments. The idea was that IFC should be a catalyst, providing only small investment sums out of its own capital, but organizing teams of private investors from the industrialized countries and the less developed countries to put up the bulk of the money needed for a given investment opportunity.

It has taken eight years for IFC to devise effective operating procedures which are not too complicated for the management of new enterprises in the less developed countries and are at the same time attractive to private investors here and in Europe. The IFC has committed all of its original funds, about 30 percent in equity-type investments and the rest in loans.

In the past year Mr. Woods faced the decision about how to increase IFC's capital. He could ask for further contributions; he could have IFC try to raise money through issuing its own securities; or he could revise the World Bank's charter to allow the Bank to lend directly to IFC. For practical reasons he chose the latter course, and Congress will be asked next year to approve amendments to the charters of the Bank and IFC.

This is an important step. It is a fact that one of the hallmarks of a poor or developing nation is the absence of a large business community, willing and able to invest money in productive industrial enterprises, as opposed to trade or real estate.

At the same time new industry is today both the symbol of the economic progress which the less developed countries want and the substance without which employment opportunities cannot be gained. The problem, then, is to improve the usefulness of the World Bank family as a source of industrial finance for private industry in these countries.

One useful way of doing this -- a way pioneered by the World Bank -- has been to help establish industrial development banks in the less developed countries, which can deal with many hundreds of small private investors. The Bank and IFC together have invested $290 million in this kind of institution. IFC now has the responsibility for building on this record.

If Congress approves amendments permitting the Bank to lend money to IFC, the latter will become in effect the World Bank's industrial department. While continuing to act primarily as a catalyst for other private investors, IFC will itself make larger industrial loans to private enterprises in the less developed countries.

I have tried to illustrate some of the ways in which the World Bank family has become a financial success, an economic success and a diplomatic success. In conclusion let me say one word about the future.

The idea of "foreign aid" has been involved in a great deal of heated debate of late in the Congress and elsewhere in this country. But I don't have to point out to you, as bankers, that it would be the sheerest kind of blindness to ignore in our foreign relations one of the great strengths which the United States has as the free world's leader -- the strength which comes from its very wealth as a nation. To conduct diplomacy without drawing on that strength would be as silly as to conduct warfare without using the Navy or the Air Force.

Working for peace through helping other nations to engineer some escape from their poverty is just as important work in terms of our own security and well-being as is the work of our defense planners and our regular diplomati corps. If the task of the defense establishment is to maintain the balance of power in favor of freedom, the task of development diplomacy is to maintain the balance of hope in our favor and for the free world. The one without the other simply will not provide us and the free world with the security we must have!

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When I first came to Washington in 1959 as a freshman Member of Congress, one of my first assignments was to help defend on the floor of the House of Representatives an increase in the resources of the World Bank. To prepare myself for this assignment I read everything about the World Bank family that I could find; I had long talks with Secretary of the Treasury, Robert B. Anderson, and with Mr. Eugene Black, who was then the President of the Bank. It seemed to me then, and I still believe, that the development of this great international financial institution marked a turning point in the affairs of men. In the past, warriors and diplomats have marched across the pages of history with scarcely a nod toward the banker or the financier. This great, highly successful organization of 102 nations now brings finance up to the top levels of international policy.

To me there is no more hopeful augury in the world today than the acceptance of the concept that economic development rates equally with military power in keeping the peace. As bankers this is something we can understand. I urge you all to acquaint yourselves with the programs and the problems of this great family of international institutions. When public debate arises, bring to the debate your skills and experience as bankers. This is <u>our</u> debate, and I urge you to make yourselves heard.

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