

NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

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FOR RELEASE AT 4 P. M.,
MONDAY, OCTOBER 19, 1964:

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American prosperity and security depend in large part upon continued development of emerging nations through the activities of the World Bank and its affiliates, Chairman Joseph W. Barr of the Federal Deposit Insurance Corporation declared today.

Discussing the role of the World Bank and the International Development Association, Mr. Barr said "the international credit structure represents one of the few islands of order which make international cooperation possible today." Maintenance of the World Bank, and continued support by the United States, must be continued, he said, "for our security and prosperity are at stake."

Addressing an afternoon session of the annual convention of the Iowa Bankers Association, at the Hotel Fort Des Moines, in Des Moines, Iowa, he declared "a vital part of the new diplomacy involves preserving this credit structure and expanding economic activity under it, for only by doing so can we maintain working relationships with these turbulent lands where the future holds so much uncertainty."

Mr. Barr added, "It would be sheer 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 our great wealth of capital."

(more)

Citing some of the development activities of the World Bank and IDA, Mr. Barr pointed to another advantage reaped by the United States, the "increasing rate" of exports from the U. S. to developing nations, and the continued development of profitable investments available overseas to private investors.

He urged his banker audience to support this program of economic development which, he said, "ranks with military power and political skill as one of the three main branches of diplomacy."

He concluded, "it is this branch which is most concerned, perhaps, with maintaining the balance of hope in the proposition that other lands, so deeply affected by our ideas and achievements, will develop ways of life which are at least consistent with our security and compatible with our concepts of freedom."

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BANKING TECHNIQUES IN FOREIGN POLICY:
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

at the

ANNUAL CONVENTION

of the

ICWA BANKERS ASSOCIATION

Hotel Fort Des Moines

Des Moines, Iowa

Afternoon Session
Monday, October 19, 1964

Address of
Joseph W. Barr, Chairman, Federal Deposit Insurance Corporation
Before the Iowa Bankers Association
Hotel Fort Des Moines, Des Moines, Iowa
Monday P. M., October 19, 1964

BANKING TECHNIQUES IN FOREIGN POLICY: THE INTERNATIONAL DEVELOPMENT ASSOCIATION

It is now nearly twenty years after the end of World War II and we Americans are still getting used to the fact that diplomacy in our time has become such a radically different thing from the stereotype we were taught in school. Just consider the contrast for a minute.

Our two great ambassadors of the revolutionary period, Benjamin Franklin and Thomas Jefferson, were brilliant defenders of this country's interests; they used their assignments abroad to make friendships and spread propaganda for America with great skill and imagination. It was part of Franklin's diplomacy to bring together the great scientific minds of Europe and America to share the results of their experiments and in the process the image of America grew in stature in Europe. It was part of Jefferson's diplomacy to discourse brilliantly on political theory with the great thinkers of Europe, and in the process America grew as a fascinating study for Europeans in search of a new beginning to their political affairs.

But we can be sure that neither Jefferson nor Franklin ever dreamed what diplomacy would be like in our time. They never dreamed that a whole cross section of America would be transplanted in Germany and Japan, to carry out a military occupation, and that subsequently American soldiers and sailors would be part of the diplomatic scene in nearly 100 countries around the world. They

never dreamed that the political discourse between nations would grow into a global propaganda war between freedom and communism, involving all the heavy machinery of mass communications. They never dreamed that in one year -- in 1963 to be exact -- the United States government would be officially represented at 537 international conferences to discuss and debate everything from the latest developments in science to the problems of buying and selling coffee and cocoa. They never dreamed that the traditional arts of economic reporting by consuls abroad would grow in our time into a huge program of development diplomacy, where technical ambassadors from the farms and factories of this country would be working side-by-side with their counterparts in other lands, trying to help them engineer an escape from the worst perils of national poverty.

Actually it is only in the last twenty years that the ancient arts of diplomacy have been transformed. They have been transformed by science and technology which, while enriching our lives, have forced us to live in uncomfortable intimacy with other nations -- science and technology which have brought our communities to within a few minutes by missile from communities on the other side of the world.

The ancient arts of diplomacy have been transformed by the very political ideals which Jefferson and his contemporaries preached -- the ideals of liberty and national self-determination. If the ideal of individual liberty seems all too often today to get lost in the slogans of modern nationalism -- or worse still, perverted by the communists into its very opposite -- these ideals nonetheless still provide the fertilizer of revolution throughout Asia, Africa, and Latin America.

And the arts of diplomacy have been transformed by the very ideas of progress which energized that great mind of Franklin's -- ideas which have persuaded millions the world over that there is an alternative to a life of poverty. We have shown the world what society can do when men master the secrets of nature; we should not be surprised that millions now want to master those secrets too, and are impatient to catch up with our material progress.

Nor should we be afraid to accept the impact of our heritage on the world. It is not surprising that we are constantly exposed to the immensely complex business of diplomacy in our time. For just as science and technology, just as the pursuit of political ideals, have vastly complicated and enriched our lives here at home, so they have complicated our relations with mankind beyond our borders out of all comparison with the past.

Of all the new arts in diplomacy perhaps the one that fascinates me most is the application of banking techniques to the problems of development diplomacy -- as Mr. Eugene Black used to describe his business when he was president of the World Bank. The World Bank, first under Mr. Black's leadership and now under the leadership of Mr. George Woods, has made two very important contributions to the new arts of diplomacy. It has been able to conduct its business very largely by raising money in the private markets of the United States and Europe; and it has refined a banking technique called the "project approach," which is at once very similar to the down-to-earth kind of banking you know, and at the same time peculiarly well suited to the very difficult and delicate problems of dealing with the governments of new nations, all of which are quite understandably seeking to get rich quick -- or at least to get less poor.

The financial success of the World Bank is a story in itself. Never

before in history has an international organization, made up of 102 sovereign governments, attempted to float its bonds in the private market. The World Bank has done this in the United States, Canada, the United Kingdom, Belgium, the Netherlands, West Germany, Switzerland, Italy, and Austria. It has offered its bonds at the going market rate, and its offerings have been taken up eagerly. World Bank bonds are held today by private investors and government institutions in virtually every non-communist country of the world. The Bank's outstanding funded debt -- about 40 percent of it held in the United States and 60 percent outside of the United States -- now amounts to \$2.5 billion equivalent.

Of course, World Bank bonds would not have been a success in the private markets if the World Bank didn't make a profit. It does; 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 at their recent annual meeting, held this year in Tokyo, the Bank's Governors voted to transfer \$50 million out of last year's net earnings to its affiliate, the International Development Association. The Bank expects to make similar transfers on a regular basis in the future.

But profits are not a good measure of the World Bank's success in the new diplomacy. The World Bank's success, just like the success of your own banks, should be measured in the broadest sense by the contribution made through lending, not just by the security afforded to savers and investors. This is even more true in the case of the World Bank, for its whole object is to help its borrowers -- public utility enterprises, private industries, government agencies -- to organize, finance, and administer sound development projects.

Here's where the "project approach" comes in.

Just as you want to know what a borrower is going to do with the loan he gets from your bank, so the World Bank asks a lot of questions before making a loan. But the banker-client relationship is a much more delicate and difficult matter when the Bank is an international organization and the client is one of 80 sovereign governments. To put it simply, communication can be very difficult when you try to be the neighborhood bank to the whole world.

Yet this is just where the Bank has proved its great worth. The World Bank is in a way more conservative than you are; by and large, it will only lend money for specific projects -- projects which it has scouted thoroughly to be sure that the plans are soundly engineered, that the internal financial structure makes sense and that management looks competent. Over the past 15 years the Bank has loaned \$8 billion of its own funds to hundreds of different projects in 80 countries and territories. Local governments and private investors have invested perhaps twice that sum in the same projects.

The World Bank does not open lines of credit in favor of governments or government enterprises. It does not make loans simply on the "full faith and credit" of borrowing governments. Recently, it has departed from its "project approach" to make a loan in India to guarantee the supply of certain key imports to private industry as a whole. But the important fact is that the Bank only disburses its money against specific orders for materials, equipment or services, the end use of which it has thoroughly studied and explored beforehand.

The conditions laid down by the World Bank are, as I say, quite like

the conditions which you lay down very often in your own lending. They are specific, reasonable, even orthodox. They may entail new methods of internal financial controls in public utility operations; they may entail a reform in the administration of an import licensing program; they may include a reorganization of a highway maintenance shop; they may insist on the establishment of an autonomous public authority, such as a port authority; they may require the borrower to hire technical services from abroad for a number of years. But ordinary as these conditions must sound to you, they are the very stuff of the World Bank's success. These conditions have led to innovations and reforms in the borrowing countries; even more than the ability of borrowing governments to service World Bank loans, it is these innovations and reforms which promise economic progress in the future in Asia, Africa and Latin America.

The World Bank has made out of ordinary banking techniques a new diplomatic art. Economic progress is made up of a host of rather special requirements which are often lumped together in the phrase "efficient production." It is not just capital, though that's important; it's not just government policies, though they are important; the real common denominators of economic progress are hard work and efficient production. It is these common denominators which the World Bank is working to encourage throughout Asia, Africa and Latin America.

It would be reassuring to be able to say that the World Bank has found the answer to what we call in Washington "the annual problem of foreign aid." I think it does provide part of the answer, but unfortunately the nations of Africa, Asia and Latin America are much too poor to service unlimited quantities of World Bank loans, even if the World Bank could raise unlimited quantities of

capital in the private market. In this country it is hard to find a good prospect -- a good man or a good idea -- which cannot qualify for a bank loan somewhere. In the world at large there are a great many good prospects which cannot be financed on conventional terms simply because the nation cannot afford the foreign exchange even if the individual or the idea is a good prospect.

In 1960 the United States Government borrowed an idea from Senator Mike Monroney of Oklahoma in an effort to expand the usefulness of the World Bank by allowing it to finance more of the good prospects it had found in Asia, Africa and Latin America without burdening its borrower with too much foreign debt. The idea became the International Development Association -- Ida, as we call her. Member governments of the World Bank have agreed since 1960 to invest \$1.5 billion in IDA in the form of non-interest bearing notes or contributions. The United States has put up about 40 percent and Western Europe most of the rest. The effect of IDA has been to enable the World Bank to make its money go further; the financial effect 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 place of interest.

IDA is a unique international organization; in reality it doesn't exist apart from the World Bank. IDA's directors are the same as the Bank's directors, with a few unimportant exceptions; IDA's staff is the Bank's staff; IDA money is used, with few exceptions, for the same kinds of projects which are financed by the Bank. IDA, if you will, is a unique way of reconciling the capital requirements of the developing countries with the need to preserve and expand a stable international credit structure.

Let me illustrate the kinds of projects which are made possible by the

existence of IDA.

In 1950 the World Bank undertook to finance a series of improvements in the road system of Ethiopia. The projects were part of a farm-to-market road program essential to Ethiopia's economic prospects, for that country earns its way in the world only as it sells its agricultural products, particularly coffee, on the world market. The Bank made loans of \$5 million in 1950 and \$15 million in 1957 which, in conjunction with the United States bi-lateral aid program in Ethiopia, resulted in the establishment of a government highway authority which now maintains some 3,200 miles of all-weather roads.

In 1963 the highway program faced being cut back for lack of essential imported materials. Ethiopia's balance of payments was under strain and the country had already contracted a sizeable amount of foreign debt. Ethiopia was not a good risk for the Bank, yet the highway program was already "paying off" in increased exports and increased economic activity in Ethiopia. Here the Bank decided to draw on IDA funds. A \$13.5 million credit, maturing in 50 years with a nominal service charge in lieu of interest, was extended to complete roads already under construction, to build 135 miles of new roads and to permit the asphaltting of 500 miles of existing road.

Ethiopia has a good prospect which could not be banked in an ordinary way. Yet if the prospect were ignored, workers would have had to be laid off the job; the economic returns promised from Ethiopia's farm-to-market road system would be lessened or postponed; some work already in progress would have been brought to a halt. It was a natural case to call on IDA funds.

Or take the case of the Industrial Development Bank of Turkey. This private bank was established in 1950 with the help of a World Bank loan and a

loan from the Turkish government. The object was to provide a new source of financing for some of the hundreds of new private industries which have grown up in Turkey since World War II. The World Bank could not afford to deal with these industries separately; most were simply too small. So, as it has done in many countries, the World Bank helped establish the Industrial Development Bank of Turkey as a way of providing help indirectly for small business in Turkey.

The Development Bank has proved a success, even as the Turkish government has fought a series of losing battles trying to balance its external payments. In 1962 the Turkish Development Bank faced a serious shortage of foreign exchange. Here again the World Bank stepped in, drawing on IDA funds. A \$5 million credit was extended to the government of Turkey on condition that it be re-lent at a $5\frac{1}{2}$ percent annual rate to the Development Bank, which in turn re-lent the money to its clients at 8 percent with maturities appropriate to the individual projects concerned. In this way many good private enterprise prospects in Turkey were served with foreign exchange credit, at the going Turkish rate, to buy essential imports in a manner which did not further impair the balance of payments of Turkey. On the contrary, this investment should strengthen Turkey's payments position insofar as private enterprise in Turkey continues its record of profitable growth and returns to the government, through the Development Bank, $5\frac{1}{2}$ percent interest on money which the Turkish government hired for a nominal service charge.

From these examples you can see that IDA does support the international credit structure, and I would be less than candid with you if I didn't say that I think support of this kind is going to be needed for some time into the future. I would hate to think of the production -- of the economic progress -- which

would never have occurred had we not given extraordinary and unusual support to the international credit structure, first and foremost through our bi-lateral aid program and latterly through IDA. I would hate to think what a shambles our foreign relations would become if governments were forced to default on their foreign debt because loan had been piled upon loan without consideration for the international credit structure.

The international credit structure represents one of the few islands of order which make international cooperation possible today. It is not just that its continued orderliness is necessary for the future work of the World Bank; its continued orderliness is necessary if our exports are to continue to flow at an increasing rate to the countries of Asia, Africa, and Latin America, and if our private investors are to continue to make profitable investments there. A vital part of the new diplomacy involves preserving this credit structure and expanding economic activity under it, for only by doing so can we maintain working relationships with these turbulent lands where the future holds so much uncertainty.

And I submit that we must continue this support -- in partnership, let it be said, with our European allies -- for our security and prosperity are at stake. I don't have to point out to you, as bankers, that it would be sheer 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 our great wealth of capital. To conduct diplomacy without making use of our capital would be as silly as to conduct warfare without using the Navy or the Air Force.

Just as we mobilize the talent of our nation in wartime, so we must

mobilize our talents for the new diplomacy on which the peace of the world and our continued prosperity depend. The part that banking techniques have come to play in this new diplomacy is so important that you should make yourselves heard in the debates and discussions about how these techniques are employed. For economic development today ranks with military power and political skill as one of the three main branches of diplomacy. And it is the branch which is most concerned, perhaps, with maintaining the balance of hope in the proposition that other lands, so deeply affected by our ideas and achievements, will develop ways of life which are at least consistent with our security and compatible with our concepts of freedom.

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