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Address by Eugene R. Black, President
of the International Bank for Reconstruction and
Development, before the Annual Convention of the Savings
Banks Association of the State of New York
Aboard the Nieuw Amsterdam, October 23, 1949

It gives me great pleasure to be asked to speak to this sea-going convention of the New York State Savings Banks Association. Nowhere could I find an audience whose goodwill is more vital to the International Bank. Your statewide organization is one of the major institutional investment groups in the United States, having assets of more than $10 billion. I find it a great tribute to the Bank as a sound institution that you have been increasing your holdings of the Bank's bonds since the beginning of this year and that now the members of your association in New York City and Westchester alone hold more than a third of its total outstanding obligations. On July 1 the figure stood at $89 million, which is a gain of $14 million over the previous 6 months.

I knew that an audience that had put such confidence in the Bank would be familiar with its general purposes and activities. So I decided not to bore you with that kind of speech but to try to give you a more vivid picture of the way in which we conduct our business by taking one particular loan application and describing the sequence of events until a contract was finally signed. I hope in this way that I can bring alive some of the more general statements that you may have heard me make or may have seen printed in our reports.

The country that I shall speak about is India. I chose India because it is a vast country, newly independent, with many economic problems to resolve and yet it holds out great promise for the future. I can think of few more important or challenging tasks for the Bank than that of assisting the development of India.

The Indian people have inherited a rich civilization; it is no accident that this peace-loving nation produced one of the great spiritual leaders of our time. But they need to develop material wealth. There is modern industry in India, steel-works and textile mills for example, but their product, though substantial, when spread over 340 million people amounts to very little. The vast majority of those people still cultivate a small plot of land in a traditional fashion and produce barely enough to keep them alive. The task of raising their standard of living is made the more difficult by the fact that a growing population presses continually harder on land with low productivity.

The new Indian government that took over from the British when they withdrew was faced with added difficulties. The war had left the industrial and transportation systems badly in need of reequipment and the people with far more money than they had been able to spend. There was abundant need for new machinery and spare parts and a pent-up inflationary demand for consumer's goods. With independence came the Partition and the terrible flight of millions of refugees both into and out of the new India. The government found it difficult to reduce military expenditure while trouble prevailed in Hyderabad and Kashmir. On top of all this, the weather was unusually bad; the monsoon, that decides the fate of the harvest, failed in three successive years.

This catalogue of misfortunes would be enough to try the most hardy government, let alone one which had newly acquired power and which at certain levels lacked experience. It says much for the stability of the Indian people and their government that order and administration did not disintegrate under the strain. Independence had been rather too optimistically identified with a sudden improvement in material welfare, but disappointment when this failed to happen did not degenerate into bitterness and recrimination.

The government set itself with determination to perform two urgent tasks: for the present, to assure a fair distribution of food; and for the future, to prepare plans for the economic development of the country. In September 1948 they approached the Bank for financial assistance with a list of projects in various stages of preparation.

The Bank's first step was to send the Indian Government a detailed questionnaire on a variety of financial and economic subjects. The Indian government cooperated to the full in its replies, which provided the Bank's staff with the information needed to complete a preliminary report.

In this preliminary report the whole economic and financial position of India was analyzed as accurately as possible before the departure of a mission to investigate conditions on the spot. Clearly we did not expect that a report of this nature, prepared at a desk in Washington, would give answers to all the questions. Its purpose was to raise what appeared to be the important questions, so that the members of a mission could go straight to the most crucial points when they visited India. It also gave each member a general background of information against which he could pursue his own specialized investigations.

One serious aspect of India's situation was the large deficit that it was running in its trade with the United States and other "dollar" countries. In 1948 the deficit amounted to $163 millions, whereas before the war India usually had a surplus with the United States from the sale of burlap and various other products. India was financing this deficit by drawing on the central sterling area reserves, which have been run down rapidly of late, and by the temporary device of drawing on the International Monetary Fund. This was at first sight not an ideal situation for the assumption of new dollar debt.

The causes of the deficit were not hard to discover. As is so often the case, the disruptions caused by the war were to a large extent at the bottom of the trouble. Industry's requirements of new machinery and raw materials could not be met by India's former suppliers such as Britain, Germany and Japan. And the neighboring state of Burma had been so disrupted by the Japanese war and the subsequent civil war that the large quantities of rice which were previously exported to India were no longer forthcoming. India, like so many other countries, was forced to turn to the United States to meet its needs for capital equipment and food.

Partition also contributed to the deficit. Pakistan had formerly had a surplus of food to supply to India. But Pakistan had also suffered from bad harvests and was consuming all its reduced production at home. In addition, a large share of the prewar dollar-earning commodities is produced in and exported by what is now Pakistan. To make matters worse, Pakistan put an export tax on the raw jute from which Indian burlap is made, and this further weakened the competitive position of India's main export to the United States.

There is one aspect of the situation that we have met all over the world. It is impossible to look at any one country in isolation; everywhere one is struck by the great degree of interdependence among nations and the ease with which the delicate mechanism of international trade and finance can be thrown out of gear. India's problems stemmed from those of other countries from the Atlantic to the Pacific. The sooner they could conquer their problems, the better for India. This was particularly true of Britain, for India had amassed during the war enormous sterling balances in London, the counterpart in fact of the rupees that were causing such an inflationary demand at home. The rate at which India can draw on these balances depends, of course, on Britain's general economic position.

Unfortunately, India's troubles were not wholly due to external causes. For one thing, concern over the food shortage was more acute than it had been for 60 years. And when I say food, I mean the bare necessities of existence, not meat, which we think of as a necessity, but grains.

To a government determined to ensure equitable and sufficient distribution of food to all, it was a disturbing fact that population was outstripping production. Nor was this all. As a result of inflation, food prices were high and brought a much more remunerative return to the farmer. His reaction was to sell less and to hold back the disposable surplus. Obviously in a country as vast as India where grain is not produced as it is in Kansas and Iowa, but on millions of small plots, procurement is a Herculean task. But the townspeople had to be fed and what could not be procured from the farmer had to be imported.

Raising food production was obviously one of the most urgent tasks facing the Indian government, but it was equally essential to eradicate the deficit in their accounts with the United States and other "hard-currency" countries by maintaining as high a rate of industrial production as existing capacity would permit, especially in industries exporting to the dollar area.

An obstacle surrounding the whole industrial system was the poor condition of the railway system. The railways had suffered from insufficient maintenance not only during the war but even before that during the depression. Their stock of locomotives, already old and barely adequate, was depleted in order to provide motive power for the Middle East theatre of war. New burdens were thrust on the railways by the heavy food imports and the re-routing of traffic to Indian instead of Pakistani ports after partition.

The result was frequent breakdowns, delays, deterioration of goods in transit and all the irritations of a system of priorities. There was scarcely an aspect of industrial life in which the natural flow of goods and materials was not constricted by this bottleneck, but I might mention one example: exports of manganese, an important dollar earning commodity, were held up by the inability of the railways to carry them.

Food production and rehabilitation of the railways were two outstanding jobs of a physical nature before the Indian government, but there were features in the finances of the country which also required attention. I have already mentioned inflation, but it deserves some more comment. It had its effect on industrial production, where strikes and other evidences of unrest could be partly attributed to it. It hampered the ability of the government to pursue its development plans. Taxation was already high in order to finance military expenditures and the care of millions of refugees, so that these plans could be undertaken only by deficit financing or by borrowing. Deficit financing would have only added fuel to the fire. Borrowing was limited by a tight capital market - tight, not because of any absence of liquidity, but because the uncertainties regarding the Government's fiscal policy placed a premium on liquidity rather than investment in long-term bonds. The capital market was, in fact, shy all round, for private industry was uncertain of government policy in regard to such pertinent matters as nationalization, freight priorities on the railways and the allocation of raw materials and foreign exchange.

These were the broad problems facing India. At the beginning of this year the Bank sent a mission to see how the Indian government was coping with these problems and, in particular, to investigate the projects put up to the Bank for financing. The mission, which was headed by the Assistant Loan Director, included two other members of the Loan Department and two members of the Economic Department. In view of the vital position of the railroads, the Bank also engaged a British railway engineer as consultant -- British for the good reason that the railways were built by the British and today they are still run according to British operational practices and procedures.

The members of the mission proceeded to New Delhi where they conferred for several days with various members of the Indian government, both Ministers and officials in charge of the development program. But they soon split up and travelled all over the country. They inspected projects on the spot. And they talked to people in many walks of life -- labor and capital, commercial and professional. They went out to get the "feel" of the country, not just the bare bones of accounts and statistics. I will try to tell you what they found.

The Indian Government is tackling the food problem in two ways -- by growing more food on existing land and by bringing more land into cultivation. They had started a nationwide "Grow more food" campaign. In a way you might compare it to our wartime "Victory Garden" campaign except that this is a campaign for maintaining the barest minimum for existence rather than for filling the national salad-bowl; it also includes education of the farmer in better methods of cultivation. They also planned to import and distribute fertilizer, which is badly needed in a land with some of the lowest yields in the world. The question of Bank financing for the import of fertilizer arose but it was agreed that, as it was an annual and recurrent requirement, it was not suitable for long-term financing.

Another project, more suitable for the Bank, was the sinking of several thousand tubewells to provide additional water for irrigating large areas in various parts of Northern India. This scheme undoubtedly has interesting possibilities, but investigations have only reached a preliminary stage and cost estimates are not yet available. In these circumstances, the mission recommended that the Bank hold its hand until better evidence of the project's practicability was available.

I come now to a project that had a much more immediate appeal. In many parts of India land that had previously been good agricultural land had to all intents and purposes gone out of cultivation owing to the inroads of a weed known as kans grass. Kans grass is a stubborn weed with deep roots that does not submit easily to attempts to dislodge it. The Indian government has made experiments to eradicate it by deep ploughing, with tractors left by the United States Army. The experiments were satisfactory and they now propose to tackle it in many parts of Central India over a total area about the size of the State of Connecticut. This seemed to the mission the cheapest project for increasing food production presented to it -- cheaper in fact than had originally been estimated since it was found that by using equipment more effectively less would be needed than had been thought.

I would like to anticipate the order of events a little by saying that on September 29 the Bank made a loan of $10 million to India for the import of tractors and equipment to clear this land. The loan is for a term of seven years and carries an interest rate of 2½% and the usual commission of 1% that is allocated to the Bank's special reserve fund. It will take seven years to clear the whole area of 3 million acres, but even during this period of reclamation 4 million tons of cereals should become available to the market, which alone would save India many times the dollar cost of the project. At the end of the seven years, the reclaimed land will supply about one million tons a year. There is a possibility that the weed may reappear, but, even if it does, it should be comparatively easy to keep it under control with cultivating tractors.

The mission had another land reclamation project put before it. The land in question is a belt of scrub jungle along the foothills of the Himalayas. It is much more difficult to clear than the kans grass land and it involves swamp and malaria control. Furthermore, it is not inhabited as is the kans grass land so that houses and all the facilities that go with new villages would have to be built from scratch. It is true that it would provide an occupation for the refugees now cooped up in camps, but it is by no means clear that this is the best method of dealing with that problem. The Bank decided that it would be best for the Indians to carry out a pilot scheme first. A few tractors for this purpose were included in the loan I just mentioned. The results of this should give the Bank -- and India -- a better idea of the practicability of the project.

Now I shall turn to the railways. The root of the trouble was the lack of motive power. A quarter of the locomotives were more than 40 years old. They were too often and too long in the repair-shops and some of them had developed personal idiosyncrasies that were understood by only one crew. The government had recognized this and the bulk of the financing that it had requested from the Bank concerned the purchase or the manufacture of locomotives.

To put matters briefly, our consultant strongly recommended that the Bank should make a loan to help finance the import of some 650 locomotives from the United States and Canada together with spare parts and boilers. This was the purpose of the Bank's first loan to India, made on August 18 for a sum of $34 million. The period of this loan is 15 years and the interest rate 3% plus the 1% special commission. India's own contribution to the cost of the locomotives amounts to some $50 million.

The government had also put up to the Bank a scheme for a plant to build locomotives. Negotiations with a continental firm had been carried quite far, although no contract had actually been signed. This firm was to supervise the construction of the plant, train the workers and give all necessary technical assistance. And until the plant was in full production they were to supply locomotives from their own shop.

Our consultant came out strongly against this on the grounds that the plant would make no immediate contribution to the shortage of locomotives, which required immediate attention. In fact, it would probably aggravate an already serious situation by drawing skilled labor away from the repair-shops where they were badly needed and by cutting into the limited amount of steel and machine tools allocated to the railways. He did suggest, however, that there was a need for centralized production of spare parts and that the works, which are already under construction, might well be used for this purpose.

He recognized that the locomotives that were to be imported were needed, but a currency consideration intervened here. He recommended that they be purchased in other parts of Europe where capacity was available and payment could be made in soft currency. I do not have time to go into all the recommendations made about the railways, but there were several others of a technical or organizational nature designed to exploit the existing system to the best advantage. Many of those recommendations are being put into effect by the Indian government. This will reinforce the benefits from the new locomotives, a great number of which are already in operation. When they are all working, the railways should be able to carry 15 to 20 per cent more traffic than at present, which would meet all normal demands. According to the latest news from India, conditions are already much improved.

Two other projects presented to us were of a multi-purpose character more or less on the lines of our T.V.A. I cannot resist this opportunity to go off at a tangent a little way and to tell you how much impression the T.V.A. has made throughout the world. It is always cropping up - in Africa, in South America and in Asia. Nowadays, when people see a great river with its spring floods pouring to waste into the sea and a few weeks later a dried-up summer bed, their thoughts seem naturally to turn to Knoxville, Tennessee.

To get back to my story, one of these two projects, the Damodar Valley Authority, was pretty much like the T.V.A. It had been planned with the aid of T.V.A. engineers. The Damodar Valley lies north of the great seaport of Calcutta and is one of the principal industrial centers in India. The scheme involves the construction of a series of dams and hydroelectric stations for power, flood-control and irrigation. An integral part of the scheme is a large thermal station located on the coal fields at Bokaro, which would supply a large part of the power.

The other project was for the construction of a big dam - on the scale of Boulder Dam - in the East Punjab in the Northwest of India about 200 miles from the capital city, New Delhi. This project, too, was for irrigation and power, but as the area is not so industrialized, the accent was more on irrigation, which would bring under cultivation 3 million acres of barren land. This project has several attractive features. Existing power facilities use oil and coal which have to be brought long distances overland and are therefore expensive. And one difficulty with irrigation projects that we have encountered - the education of the farmer in the use of water - is not present in this region, where the people are well used to it.

Although both of these multi-purpose projects were, in general, attractive the mission had a number of questions on the technical and financial side. For instance, the growth of demand for power in the Punjab scheme seemed to have been somewhat overestimated in spite of the fact that it would serve New Delhi. There is too a legal question over water rights that India and Pakistan still have to settle. They recommended, therefore, that a detailed technical investigation of both schemes be carried out before the Bank proceeded further and, in particular, that special and early attention be paid to the first stage of the Damodar Valley project, which includes the thermal power station. This project, fortunately, lends itself to construction in stages so that the Bank might be able to consider this part of the project without at this stage committing itself to the whole. Power is already short in the Valley, so that the provision of one new station does not involve consideration of such long-range questions as does the whole project.

Discussions on the Bokaro power station are now well advanced. Dollar expenditure on this project can be put at around $25 million. If the Bank decides to finance this in addition to the $10 million for kans grass eradication and the $34 million for the railways, the total of Bank loans to India would be some $70 million.

There were two other minor projects which, for various reasons, the Bank did not feel it could finance, but I think I have said enough already about the more important ones to give you a broad idea of the problems encountered.

The mission enjoyed full cooperation from the Indian government and exchange of views took place in the most amicable manner. Members of the mission spoke to Ministers not only about the projects, but also about numerous other subjects of a more general character. Coordination of development projects was not at the time particularly tight, but the government has since taken steps to stop the dissipation of scarce equipment and materials in projects with low priority. Efforts are also being made to encourage savings, to restore the confidence of business and to curb inflation. Skilled labor is scarce in India and its use needs to be carefully guided; although training schools have been started, the need will continue for some time. The mission pointed out the advantages which could be derived from the encouragement of foreign investors, who would bring both capital and skill. There is good reason to believe that the Indian government is aware of this and intends to facilitate the flow of foreign capital so far as it can. It is noteworthy that there has been renewed British investment in India recently and no attempt has been made by the Indian government to penalize existing British interests by nationalization or other measures. On the contrary, the Prime Minister has given assurances for the protection of all foreign capital.

India's debt record is an excellent one. Before World War II, India borrowed exclusively on the London market and by 1939 her debt amounted to £350 million at rates ranging from 3% to 5%, which were comparable to those of British Government loans. There was never any default on these loans, whose service on interest and amortization was, on the average, about £25 million a year.

That sterling debt was, for all practical purposes, paid off during the war and India now has sterling balances of nearly £600 million. India has no long-term foreign debt - except for the Bank loans - in dollars or any other currency. In fact this is the first time that India has borrowed on the dollar market.

Taking all those factors into account, we estimated that India could support a loan service substantially larger than that demanded by the two loans granted so far. This was a long range view. Of course, in the short run there may be both favorable and unfavorable developments, many of which will be of a temporary character. Right now you will no doubt have read of the differences between India and Pakistan on the question of devaluation. They affect trade between the two and could seriously injure the Indian jute-processing industry if allowed to continue. But it is inconceivable that two countries, mutually so dependent, could not iron out their differences in the near future. I repeat that the Bank had to take a long-range view. In that light, the more permanent favorable effects of devaluation are more important than any temporary difficulties.

That is the story of the Bank in India up to now, but it does not stop there. We do not make loans and forget them except for entering interest payments on our books. Once a loan has been granted, members of what we call the "end-use" division of our Treasurer's Department follow it up. They check the proper use of our loan to see that it is being used for the purpose for which it was granted. From time to time they will go out to India to see our money in action. Our Economic Department will keep a continuing watch on the general financial and economic situation. Continuing is the key word. Once the Bank enters into a financial agreement with one of its member countries it does not drop its interest. Our aim is, of course, partly to protect our investment, but not wholly. We are, by our charter, bound to help our member countries as much as we can with advice as well as money. We shall try to give it to the best of our ability, calling on expert assistance from outside wherever and whenever we need it.

Our loans to India are not without some risk. Few things are today. I think they are a risk worthwhile taking.