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AN ECONOMIC SURVEY OF THE MIDDLE EAST

26 April 1950

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Mr. Gordon R. Clapp was born in Ellsworth, Wisconsin on 28 October 1905. He was educated at Lawrence College receiving the degree of A.B. in 1927; LL.D., 1947. Following graduation, he became successively personnel officer, director of publicity, and assistant dean at that institution during the period from June 1927 to July 1933. The only break in this service was during the year 1932-33 when he was granted a leave of absence for graduate study at the University of Chicago. Following this period of study, Mr. Clapp received the degree of M.A. Entering the service of the Tennessee Valley Authority as assistant to the director of personnel on 13 July 1933, Mr. Clapp was later given the appointment of assistant director of personnel on 16 November of the same year. He became director of personnel on 1 January 1936, general manager on 1 October 1939, and chairman of the Board of Directors, 28 October 1946. He served on the President's Advisory Committee on Education, 1936-38. In 1949 he served as chairman of the United Nation's Economic Survey Mission for the Middle East, with headquarters in Beirut, Lebanon. Mr. Clapp is a member of Phi Beta Kappa, Phi Delta Kappa, Delta Tau Delta and Tau Kappa Alpha.

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GENERAL HOLMAN: In our studies this year you have heard much discussion on the Middle East from the political and the strategic viewpoint. This morning we will have an opportunity to spotlight this area from the economic side. Its geographical position alone would make this part of the world of particular interest to the military student and to the United States and its allies.

Our distinguished speaker is Mr. Gordon R. Clapp. He brings to us both firsthand and recent information respecting this strategic area. Just last year he served as chairman of the United Nations Economic Survey Mission for the Middle East. While on this mission, his base of operations was at Beirut, Lebanon.

Mr. Clapp is prominent in the field of education and public administration. It is an honor to have you with us, Mr. Clapp, and to welcome you to this platform.

MR. CLAPP: Thank you, General Holman. Gentlemen, the United Nations Economic Survey Mission was organized and sent to the Middle East to take a look at two problems. The immediate problem that we were asked to analyze related to the future and present status of some 750,000 Arab refugees, the aftermath of the Arab-Israeli war. We were also asked to look into the long-range possibilities for economic development in the Near Eastern countries that might help to strengthen the economies of those countries, to increase the stability of their governments—most of which were new—and to analyze the possibilities of developing capital sources that would make developments possible.

I want to describe as best I can the basic economic conditions which prevail in those countries. I shall not burden you with a great many statistics for two reasons: One is that statistics about the Near Eastern countries are rather unreliable; and, second, even if I gave you the statistics, as unreliable as they are, I am sure that within a few months, if not today, they would be grossly out of date.

The Near Eastern countries within our terms of reference represent a very small spot on the map. They include Lebanon, which is a very small country indeed, having been created as a separate republic out of south western Syria. They include Syria itself; they included Palestine, which politically today consists in part of the state of Israel on the west coast along the Mediterranean, and Arab Palestine which for practical purposes is now in the kingdom of Jordan

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by action of the Parliament of Jordan; they include Jordan which most of us have heard designated in times past as Transjordan; they include Iraq and Egypt.

One of the important facts about the economy of these countries, I think, is described in the dimensions of their expenditures. In this country when we think of economic development, we are so accustomed to thinking in large-scale terms related to our tremendous national income that the translation of those same ideas to the Near East is inclined to overlook the small dimensions of these economies.

Jordan, for example, has an annual budget of an amount between 10 and 15 million dollars; Lebanon has an annual national budget that may be around 25 million dollars; Syria, possibly 40 or 50 million dollars—I am talking now about national budgets. The figures in some instances may include municipal expenditures, but more likely not. Egypt, of course, has a much larger annual budget, the last figure I saw was approximately 150 million dollars; Iraq, possibly 75 million; Israel, the largest of all, including its developmental budget combined with its annual normal budget, including a guess as to its security expenditures, might run in excess of 300 million dollars a year. Those figures are important only as they indicate the small size of the national income and the relative experience these governments have in planning projects and carrying out fiscal operations.

The population of these countries, excluding Egypt, is about 12 million. Egypt itself has more than that, approximately 18 million.

The basic resources problem of these Near Eastern countries is tied up or is expressed in one word "water." The water supply in all these countries is crucial to the entire economy. One of the major problems that we looked into was the question of water supply and the possibility, by engineering developments, of bringing about a better use of their available water supplies, and also the possibility of carrying on developments that would increase the water supply. A generalization about the water problem of the Near Eastern countries is bound to be a faulty one. Let me mention each country in particular.

Egypt's economy, of course, as everyone knows, is tied directly to the water supply available from the Nile. Jordan, even with Arab Palestine, must face its future development possibilities with a shortage of water supply for agricultural and other purposes as one of its characteristic major obstacles. The same is true with respect to Israel. We hear a great deal about the possibility of making Palestine the "land of promise." Some of that conjecture about its future is related closely to the possibility of organizing an engineering development for the Jordan River and all its tributaries, thereby making available more

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water for irrigation, more water for domestic consumption, and water for hydroelectric purposes, in which the whole Near Eastern region is woefully deficient. But the prospect of bringing that about for the benefit separately of Israel or separately for Jordan, or jointly for Jordan and Israel, is in my judgment a very remote prospect.

There are several reasons why I say this. The most obvious reason is this: Even if the engineering plans could be drawn--ultimately they will--any successful development of the Jordan River system would require international agreement between the Jews and Arabs over the very difficult question of how to divide up too little water to begin with. Countries that have not yet been able to agree upon boundaries have a few problems to settle before they can agree upon the extremely difficult questions of a division of scant water supply. We in this country, even with the availability of our system of courts and the mediating forces of the Federal Government, are constantly witnessing long-drawn-out arguments and disputes among our states about how water supplies, particularly in the West, shall be divided up for the benefit of whom.

Lebanon, a very small country, has the best possibilities with respect to water supply in terms of its population of all the Near Eastern countries, with the exception of Iraq which I shall come to in a moment. Lebanon has the Litani River. The Litani River is wholly within the boundaries of Lebanon. It is a small river as we are accustomed to think of rivers in this country, but it is also an excellent power river. As it flows out of the Bekaa Plains between the Lebanon Mountains and the Anti Lebanon Range and drops to the Mediterranean through the mountains, there is in a space of approximately 40 or 50 miles a drop in fall of about 2,500 feet. There are possibilities for major dam construction on the Litani that could produce up to 250,000 kilowatts of electricity and at the same time control the water for irrigation uses, with a water supply far in excess of the irrigation needs.

Syria also has important water supplies, the Orontes in the western part of Syria and the Euphrates and some of its tributaries in the eastern part of Syria. And in the eastern part of Syria, the area that is commonly known as the Jezira is a rain-fed area, a natural savanna in many places, with extensive grazing grounds. This area is relatively unsettled. It has great possibilities of development for agriculture, for extensive irrigation closer to the desert, and for power possibilities.

Iraq, of course, is the land of the great Tigris and Euphrates valleys. Some day those two rivers will make it possible for Iraq to be one of the blooming areas of the Middle East. Until those two rivers are developed and harnessed for flood control and in the upper reaches for power, Iraq's development will proceed rather slowly.

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What are the obstacles to the development of a stronger economy in those countries? Waiving for a moment the prevailing situation of an armistice which has brought an end to the hostilities between the Arabs and the Israelis, the major obstacle to large-scale economic development in these countries, I think, can be summed up this way:

There is a serious lack of capital available to those countries. Most of us when we think of the Near East and its natural resources think of one word "oil." But it is important in understanding the economic situations of these individual countries to remember that of the ones I have mentioned, omitting Saudi Arabia, the great peninsula to the south, Iraq is the only one of these countries that at the present time has developed oil. Syria, Lebanon, and Jordan will gain some advantage from the oil developments in the Near East as countries of transit for the pipelines that carry the oil to the Mediterranean coast, but the amounts of money they will receive in transit rights will not make a very important addition to their annual available capital when measured against the capital requirements of their economic development possibilities. Lack of capital is an important obstacle.

There is wealth in these countries. The wealth is in the hands of a relatively small number of people. The taxation systems are not very far advanced as a means of mobilizing capital for public developments. It is easy to understand why very little of the available local wealth finds its way into capital expenditure budgets of the governments when you realize what the taxation system is. Egypt, for example, only within the last year and a half passed an income tax law. The other countries do not have it, with the exception of Israel.

But it is easy to understand, as I say, why local capital does not find its way into public developments or economic developments under private auspices when we realize that private loans from available local capital can command rates as high as 20 and 30 percent. It is easy to understand why the investment channel does not carry any appreciable amount of this local capital into more modest-paying investments. River developments don't return 20 or 30 percent in direct return to the investors. Some of them can produce from 2 to 5 percent. Until ways are found to mobilize local capital resources in those countries and channel them by taxation and attractiveness of investment into local developments, the lack of capital will be an important obstacle to important economic development.

Another major obstacle, which would exist, at the moment at least, even if capital were available, is the lack of technical competence among its populations. From that statement I make the

immediate exception for Egypt and for Israel. Israel has been able to draw to its new economy a high degree of technical, professional and expert competence from all over the world. Egypt has had more experience over a longer period of time in technical development problems, and consequently is better equipped with technical people and professionally trained people, than the other Arab countries in the Middle East.

But in Jordan, Lebanon, and Syria, the technical people--engineers, agriculturalists, and the like--are in very small number. I think it is easy to understand why. When a society is formed primarily of large masses of people at a very low standard of living on the one hand and a relatively small group that possesses the major part of the wealth of the country, the middle class group is very, very small. In this country the great middle income group is the reservoir from which we draw our great numbers of professionally trained and technically competent people. Even if there were the technical competence available in these countries, even if there were available the necessary capital, there are additional obstacles in the way of immediate large-scale development of the natural resources of these countries.

The major obstacle remaining even if capital and personnel deficiencies were overcome is lack of preparation and lack of experience. I can illustrate that best, I think, by referring again to Jordan. One of the proposals that the United Nations Economic Survey Mission made as an outlet for the idle manpower represented in the Arab refugees was a proposal to develop one of the wadis, the Wadi Zerka that flows into the Jordan Valley from the East. In Jordan the Wadi Zerka is a very small stream. It is a perennial stream. It could be developed, according to estimates of our agriculture and engineering experts on the mission, for approximately five million dollars, requiring maybe two or three years to complete. That expenditure would build a dam, stabilize the flow of the wadi, double the minimum flow in the driest season of the year below the dam, and thereby double the amount of land irrigated from that particular stream. This estimate would also include reforestation of the drainage area of the wadi, and provide for the irrigation channels and conduits needed to carry out the full purpose of the project.

A project of five or six million dollars seems like a very small project indeed in terms of what these countries need if they are to bring up their standard of living. But in terms of Jordan's experience as a government, measured by the single index of its ability to mobilize an annual budget and to spend its income, the five-million-dollar project in a period of three years, to be carried on in a country where the annual budget of the entire government is about 12 to 15 million, would be a tremendously large undertaking.

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One can realize the scale of that kind of a project in the perspective of the Middle East economy by trying to imagine a single project in this country, which, over a period of three years, would require an expenditure of, say, a third to a half of our total Federal budget. It would be quite a sizable project. Lack of experience and lack of preparation for the type of projects to be built, therefore, is an important obstacle to the future economic development of the countries of that area.

What are the prospects? I think the prospects are reasonably good for the economic development of these countries, provided certain things can be brought to pass. One of their most important current obstacles to a good beginning is the lack of a political settlement between the Arabs and the Israelis. Certainly the larger developments that require international cooperation in the Middle East among the countries there must have as a prerequisite peaceful arrangements upon which to build their negotiations in the field of economics.

But it is not sufficient to state the obstacles in those terms because it was the judgment of the Economic Survey Mission that one of the most hopeful factors that would help to bring about peace in the Middle East was the prospect of getting some small economic development started within the boundaries of each country. There are many small developments ready to start now. If carried out, they can improve the prospect of peace.

There are many small projects that require relatively little capital and are within the knowledge and competence of the governments of those countries. Successful prosecution of these works would begin to enhance the prestige of the technical people they do have available and would begin to stimulate the people of those countries to think more deeply and intently about their economic opportunities. That is a hopeful prospect.

It was along that line that the Economic Survey Mission made its recommendations. We tried to discourage too much hope either on the part of this country or the other highly developed countries of the world and on the part of the countries of the Middle East with respect to immediate large-scale, physical development of their rivers and lands.

On the contrary, we suggested that the best way to bring about ultimately the development of the larger projects was for these countries to begin with some of the small projects at hand. If those projects can be begun, there will be an opportunity for them to train more people and to plan more intently for future projects of a larger scale. It will help to divert some of their attention from political disputes. Above all, any little project that can be carried to a successful conclusion,

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having to do with water and land in these areas, will add to the productivity of those countries and thereby make them that much more livable.

There is on the ground at the present time, as a result of recommendations of the Economic Survey Mission, an organization under the sponsorship of the United Nations, including an advisory commission on which are representatives of the United Kingdom, France, Turkey, and the United States. This new organization is in the Near East now to carry out the recommendations of the Economic Survey Mission with respect to the immediate problem of the refugees.

Our proposal in that respect was a very simple one: Try to get the refugees off the bread line; begin to develop some work opportunities for them by public works projects. If they can't go home, which they can't for the present, and if they can't be settled in new lands, which they cannot be, obviously they shouldn't remain idle; they should have a chance to work. Out of the proposals to give the refugees an opportunity to work on useful projects of physical engineering and resource developments, a beginning may be made that will lead into some of the more important developments.

One concluding remark. These countries in almost every case do have significant ideas about how they can develop a stronger economy. They would prefer in almost every case to develop their countries in their own way. It will not be easy to help them with financial assistance from the outside. The exception to that, of course, is Israel. Israel's present development and its future development for a long time to come will depend absolutely upon continuing outside assistance in large dimensions. In my judgement, the physical resources upon which that state is building its economy will not be able to support the standard of living to which it aspires without outside assistance to make up natural deficiencies of water and land.

It may come as somewhat of a shock to some of us in this country to realize that American dollars are not always welcome in foreign lands. I think the countries of the Near East would like financial and technical assistance from the United States and from Great Britain and other countries, but they will be extremely sensitive about the arrangements through which both financial and technical assistance flow into their future economic development.

In talking with many of the officials of these governments, I was reminded by the kinds of questions they asked of similar conversations that almost any official of the United States Government experiences when that Federal official talks with an official of one of our states. "Who will run these projects?" "Who will make the decisions?" "Who will decide which plans are to be followed?"

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"Who will get the benefits?" These are commonplace questions in our own country. In our attempt to be of help and assistance to the countries of the Near East, we will face those same questions.

I think we can find good workable answers, too, that will make it possible for our help and assistance to strengthen rather than weaken the independence of stability of these countries. I think we can find the right answers if we remember our own history and the problems that we have in this country, particularly in our relationships between the Federal Government and our State Governments. Each unit of government, whether it be foreign or domestic, wants its own place in the sun. The technical know-how and the financial help that we can make available to a very important strategic area of the world, the Near East, I think will need to observe the same sensitiveness that we are accustomed to observing in our own internal problems.

Thank you very much.

COLONEL HICKEY: All right, gentlemen, Mr. Clapp is ready for your questions.

QUESTION: Mr. Clapp, if it hadn't been for some highly questionable bookkeeping over a certain number of years, even the Tennessee Valley Authority wouldn't have shown a profit. Assuming that somewhere you can get the money and everything, get your programs and projects into these countries, where are you going to sell the products?

MR. CLAPP: Let me take the last part of your question first. I don't think there is any doubt but what much of the development that must take place in the Near East will not pay out in the form of a return directly from that project. Let me be specific and make some distinctions. There are many opportunities to expand irrigable areas. If they are done properly, in most cases they will be able to pay out as well as many of our western irrigation projects. Some of the irrigation projects in the Near East will not pay out unless they, like some projects in the West receive financial assistance in the capital investment, from a diversion of some of the return that comes from the hydroelectricity that is developed out of the projects that go along with the irrigation. Reforestation programs in the Near East, as in this country, will not pay an immediate return for obvious reasons, and yet reforestation is one of the crying needs in many portions of the Near East. On the other hand, dam development on the Litani could be a highly bankable project, financing itself out of the return which it would get from the electricity it would produce—and that with or without fancy bookkeeping.

The fancy bookkeeping question--I don't care how you figure it, an examination of the economics of the power portion of the TVA development, I think, would convince you as an investor--and you do have some money in it--that it is a pretty good proposition. Every nickel that you have put into the power portion of TVA will be paid back to the Federal Government from earnings well within the life of those projects. You will still own the projects after the money has been paid back, and you will still be getting revenue from it. I call that a pretty good deal.

Question: Mr. Clapp, what incentive would be present there for those people to develop their country? It seems they have lived on a bare existence for the past many centuries. There just doesn't appear to be an incentive present.

MR. CLAPP: Generally, I think that is true, excepting Israel and Egypt. One of the problems that must be dealt with, as economic development is promoted, is to persuade many people interested in those countries that they want a higher material standard of living. And that may not be easy to do. Incentive, I suppose, is a composite of what we want and whether we want it badly enough to stir our stumps to do something to get it. That is a problem in some of these areas. One of the ideas behind our recommendations for what we call "pilot demonstration projects," small water developments in the field of public works, was related to that question of incentive. If people could begin to do some of these things on a larger scale than they have done before, but on a sufficiently small scale so that they can make them successful, the experience they get from that, the enjoyment of some of the fruits of that kind of work will stimulate them to want more of it.

Incentive is at the bottom of much of this problem. I can illustrate that by what to me is a classic example of your very point. I am told that this is a true story. It may be absolutely untrue, I don't know, but I can well imagine it to be true: That near one of the Kibbutzin in Israel in Palestine, the promoters of the Kibbutzin, having tractors available for their own operations in this agricultural cooperative, tried to interest one of their Arab neighbors in using a tractor to plow his land, he being accustomed to plowing his land with a nail-board plow. The Israeli said, "Why with a tractor you can plow your land in about two hours, whereas it takes about four days for you to do it your way." The Arab pondered that one for a moment. He said, "What do I do after two or three hours?"

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QUESTION: Sir, I read recently where Kaiser Frazer Corporation is going to manufacture automobiles in Palestine; also, I think, General Motors is going to put up a plant. I was just wondering, in view of your talk, what is its chance of success and where would be its possible outlets for products?

MR. CLAPP: I would assume if Kaiser Fraser puts in a plant in Israel, a favorable judgment has been made about its economic feasibility. The major market, presumably, to begin with, would be in Israel. The economic success of such a venture, I should think, would, before long, depend also upon the ability of that plant to supply other than the Israeli market. That would mean supplying some of the market in Arab countries. That probably will not happen until something closer to a peace arrangement than exists today is worked out, because an important feature of the present armistice is the prevailing economic boycott. Industrial development possibilities in Israel may be based in part upon what you might call sentiment and a willingness to take a big chance in the hope that it will succeed, but that if it doesn't succeed as a gilt-edged financial proposition, it will render an important service to a large number of people who have been kicked around a great deal.

QUESTION: Sir, Arabia is not within the group that you have been talking about today. It is a neighboring country, and American oil companies are spending close to 500 million dollars in that area which is a tremendously large development, even according to United States standards. Now, with the scarce population in the whole area, wouldn't a development like that sort of have its effect through osmosis across the border even in these other countries? Wouldn't people learn from it, and the desire for a more modern way of living be created through such a project?

MR. CLAPP: I think by all means, not only is it a possibility, but you can already see signs of that kind of effect. The developments that are taking place in Saudi Arabia, with which I am not familiar from a firsthand view, are having two immediate effects on the other countries that one can identify quickly. There is need for more usable labor in Saudi Arabia. If it weren't for the political obstacles, I would think there would be a very good chance that more of the refugees than is now the case would be moving from their present location into Saudi Arabia if Saudi Arabia were to take kindly to that idea. Some of them in small numbers have already done that.

Another effect that it has is a sort of demonstrable competition among countries. You can find people in any one of these countries that we visited and analyzed who have grand ideas—and I

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mean grand in the best sense--about the possibilities of their own developments. There is a latent leadership and there is a strong nationalist sense among them--which is both a difficulty and a basis for hope--which makes them sensitive to the progress being made in neighboring countries. If we can get some things started in any one of these countries, particularly in those countries where capital is a very difficult obstacle, then it will encourage and stimulate the others to do likewise. The effects of a development in Saudi Arabia upon some of the other Arab countries may be less than one would expect with the difference in their capital situations. Jordan doesn't have the revenues from oil; Syria doesn't have the revenues from oil; nor does Lebanon; and it is easy to discount the applicability of another country's development to your own when the difference of available capital is so marked. It is as we frequently say, "Well, I could run a top-notch farm, too, if I had lots of money."

QUESTION: Mr. Clapp, you said that our interest in the Middle East is a matter of self-interest, and I presume you meant by that in our fight against communism. I wonder how much of an argument you had with these rich boys who own all these countries, a usual situation. You have the rich boys and the masses, no bourgeoisie, which is the class communism is always attacking. But, after all, they are the champions of the poor class, so obviously it occurs to me that this is one of the fertile areas we are worried about, where the poor classes are going to be convinced by the Communists, "Your interest is not theirs, and so forth." How much success have you had in hammering home the fact that, "You have the lesser of two evils; the masses are going to rise on you severely if you don't do something about it; the commies are going to do it if you are not; you had better spend your money?" In other words, if you don't do something about it, the Communists will do it. The real situation is that the rich will have to make up their minds which way they are going to lose their money. They may have to spend their fortunes to develop their lands. In doing so, we are trying to convince them that it is the right and moral thing to do anyhow. I suppose that is the theory you work on, and I am wondering if you are having any luck with that theory; "If you don't do it, the commies will."

MR. CLAPP: That understanding of the issue is fairly prevalent among people of those countries and one is puzzled now and then on the genuineness of their concern about the threat of communism. Let me explain. The Moslem religion is a great deterrent to communism. The concepts, the precepts, are a very hard barrier for the ideas of communism to combat. I would suppose--and those who know that situation much better than I could possibly know it believe--that is the major reason why there is less communism in these countries.

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Now when you talk with some of the officials they make the point very forcibly that we, of course, must be interested in their future development because if we don't help them, the threat of communism will become a very real and dangerous thing; if it should succeed, it would be very bad for us. At the same time, they are extremely sensitive, as I said, about just how our help will reach them. We are sure--and here I give you just an individual view--we must keep that possibility in mind. The great numbers of people who literally eke out a living in those countries are a fruitful field for false promises. We must make sure that we don't encourage false promises. We must realize that, unless constructive things happen in the economies of those countries which will make more material substance available to more people, a very strategic area in the world may fall away from us.

Now one further observation on that general subject. The activities of the Communists are, of course, more apparent in the cities than in the villages. In the cities their activities are quite apparent, and, of course, this very important group of refugees, the Arabs, who had to leave their homes and who are now living on the United Nations' bread lines, having been promised the right to return to their homes, and a most fertile field for the apostles of false promises and future betrayal. That is why the 750,000 refugees are much more important than the number may suggest.

COLONEL HICKEY: I am sorry, our time has passed. Mr. Clapp, on behalf of the Commandant, the students and staff, I thank you for a very instructive lecture.

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