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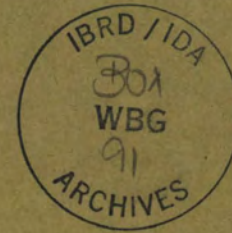
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PINEO



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ADDRESS BY CHARLES C. PINCO, LOAN DIRECTOR, INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT, AT THE ANNUAL MEETING OF THE BANKERS
ASSOCIATION FOR FOREIGN TRADE, CORONADO, CALIFORNIA, ON THURSDAY MORNING,
MAY 8, 1947

THE INTERNATIONAL BANK--ITS AIMS AND RESPONSIBILITIES

1. INTRODUCTION.

It is a great pleasure, after almost two years of retirement from foreign commercial banking, in which I spent all of my business life, to be back again among men whose chief business interest is the financing of foreign trade. I hope, today, to be able to leave with you some thoughts about the aims and responsibilities of the International Bank for Reconstruction and Development which may clarify your views about the Bank, and to tell you why I believe that the International Bank vitally interests you, and is something which must claim your active attention and cooperation.

We have all just witnessed the world's most destructive war, a war which smashed many of the basic things upon which prosperity and human happiness depend - industry, manpower, homes and moral fibre. Hundreds of billions of dollars were poured into the instruments of destruction. Now we must reverse the process. We must assist countries beaten to their knees to restore their economies, for by this method alone can we start the wheels of industry moving throughout the world. Second only to this great objective, we must aid those countries, whose productive processes are out-dated or undeveloped, to take their places in modern economic society. We must do these things not only to help other people, but to help ourselves as well, for our prosperity depends upon world prosperity.

Platitudes you say - more platitudes - the truth is, that we have become so accustomed to hearing general statements regarding world-wide events, describing situations beyond our control, that we have become apathetic. We contemplate the scene; we agree with the general description of it; but we do not feel that there is a great deal we can do to change it. In speaking to you today of the situation as regards world trade and credit I shall speak in simple and practical terms, and will suggest what I think we can do about it.

2. THE GENERAL SITUATION.

Let us start with the countries devastated by war. The truth is that they have a tremendous task; they must marshal their depleted manpower, they must teach their youth the techniques of industry; they must continue to restrict home consumption, in order to increase capital investment, to combat inflation and to buy for themselves abroad the necessities for revival; but whatever their own efforts, it is clear that these countries will not recover in the foreseeable future without external assistance. This means that world trade will not revive unless that assistance is given. If nothing is done, all countries will suffer; it is a matter of necessity that something should be done. A world half sick and half well will soon be wholly sick unless some steps are taken to heal the sickness.

These countries need money urgently, but the private investor, mindful of his experience between the two wars, and overwhelmed perhaps by the magnitude of the individual needs of these countries, is hesitant to provide it. Private lending did not do what was hoped of it in the inter-war years, and the investor of today cannot help remembering that there have been many defaults on loans issued during that period - but that is not the whole story. Let us face the fact that our lending was done for gain; it was not a part of a coordinated program; encouragement was sometimes given to borrowers and lenders alike without sufficient understanding of what was involved; frequently insufficient care was exercised to see that the loan was used for the purpose for which it was granted; and high interest rates, instead of being a warning to investors, only encouraged them to invest their money. The question now is: "Can we make a better job of lending this time? Can we help the borrower to make a better job of borrowing this time?" It is here that the International Bank comes in, but the Bank can only blaze the trail. You must be prepared to follow it closely, and to take over from it as its labors are justified.

3. THE BANK'S CHARTER.

The lines on which the Bank must approach its task of assisting in the economic and financial recovery of the world, and the conditions which must govern its actions, have been clearly laid down in the Articles of Agreement. These conditions reflect the heavy responsibilities which the Bank carries, both towards its Members, and towards the investors on whom it must eventually depend for the major portion of the funds which it will lend. They may be summarized as follows:

First, the Bank is to assist in the reconstruction of economies destroyed or disrupted by war, the reversion of productive facilities to peacetime needs, and the development of the less advanced countries;

Second, it must promote private investment whenever possible, and supplement it where necessary;

Third, it must seek to promote the growth of international trade, and the improvement of productivity, of the standard of living, and of conditions of labor throughout the world;

Fourth, it must deal with the more useful and urgent projects first;

And finally, the Bank must be satisfied that the borrower would be unable to obtain the loan elsewhere on reasonable terms, and that he will be in a position to meet his obligations under the loan.

Simply stated, the Bank is a cooperative institution to which forty-four member countries belong. These countries have paid into a fund, which forms the first working capital of the Bank, certain sums proportionate to their resources. They have also assumed the liability for much larger sums, in order that the Bank might be in a stronger position to raise further funds for its purposes.

4. THE BANK AND ITS MEMBERS.

The Bank is therefore, designed to promote mutual assistance among its Members for the reconstruction and development of their territories. Loans will be made only under the responsibility of a Member of the Institution, and this should have an important effect on the relationship between the borrower and the lender. Both have a common interest, not only in the success of the loan, but also in the success of the Institution; this permits broader and closer relations than is ordinarily the case between creditor and debtor. Encouragement will be given to a full exchange of information with regard to all matters of mutual interest, and full opportunity to consult with each other on all such matters, not only at the time the loan is made, but throughout its continued existence.

5. THE BANK'S POSITION AS A LENDER.

There are some special features in the Bank's position as a lender, which are of great importance for the proper fulfillment of its task.

Firstly, its loans will be made with a view to their effect, not only on the economy of the borrowing country, but also, indirectly, on the economy of other countries. Thus a loan for the equipment of a certain industry in one country may also benefit a neighboring country which is in need of the output of that industry.

Secondly, it is lending to its own Members, with whom it should have more satisfactory relations than normally can be established between a creditor and a debtor.

Thirdly, it can offer the private investor the opportunity of sharing in the work of the Bank, through subscription to the Bank's debentures, while enjoying a security which he could not obtain from direct lending.

6. FUNDS AVAILABLE TO THE BANK.

Now for a word about the Bank's resources, a subject which has been surrounded by a haze of misinformation. The Bank depends in the first instance on its own subscribed capital, of which 20% will be paid up by the end of the present month. The balance of 80% is to remain subject to call, only if it is required to meet the obligations of the Bank. If this is ever necessary, it will then be payable in gold, U.S. Dollars, or the currency required to discharge the obligations of the Bank. This uncalled 80% is a guarantee to the holders of the Bank's debentures. It is not available for lending. The only working funds of its own which the Bank possesses, consist of the 20% of called up capital - but only 2% is payable in gold or U.S. currency, the remaining 18% being payable in the currency of the Member country; this latter portion can be used for loans only with the specific consent of the country concerned. It is obvious that it would defeat the Bank's purpose to utilize the currency of any country which is itself in need of credit; and we may therefore, say that the 20% immediate capital contribution of the U. S., plus the 2% payable in gold, or dollars by the other nations, makes up the present loanable capital of the Bank; this sum totals approximately \$725 million.

For the supply of further funds the Bank must rely on its capacity to borrow; and its capacity to borrow will depend entirely on the confidence which it is able to inspire in the investing public. There is no danger, as has been suggested, that the Bank may lend too much money. Apart from the limitation imposed in its Articles of Agreement, that its loans must never exceed its capital, surplus and reserves, there is this practical limitation that it can only lend if it can borrow. After it has drawn on what I have just called its present loanable capital of \$725 million therefore, it will be entirely dependent on the judgment of the public, regarding its portfolio, and on the confidence which its policy will have merited. Although, therefore, the International Bank must not make loans which private bankers would be willing and able to undertake on reasonable terms, it must not make bad or imprudent loans. It must act with prudence and wisdom in the building up of its portfolio; for it is on that portfolio, and on the confidence which it will inspire in the public, that the capacity of the Bank to obtain further funds will eventually depend.

Before we leave this subject of the funds at the Bank's disposal, I would like to say one word about how the capital of the Bank has been subscribed, particularly in view of the fact that it is sometimes said that the value of the uncalled capital amounts to little more than the amount of the U.S. subscription. If we consider participation in the Bank's capital in the light of the record of the subscribers for meeting their dollar obligations before the war, we find that only about \$1,700 million of the Bank's capital of \$8 billion has been subscribed by countries with any dollar bond defaults; and if we exclude from this list the countries which defaulted only as a result of World War II, the figure is only \$1,120 million. Admittedly, in evaluating this situation the transfer difficulties, as they exist today, must be taken into account; but if we have any faith in the future at all the past record of the Members of the Bank, and their recuperative powers, cannot be ignored.

7. USE OF AVAILABLE FUNDS BY THE BANK.

Applications for loans totalling \$2,554 million are in the hands of the Bank and under study; but this does not mean that the Bank is contemplating or considering lending that amount in the near future. Most of the applications cover reconstruction programmes extending over years - some as long as five years. The Bank must of necessity study the whole programme in each case, but it is not prepared to commit itself for the full period, or for the full amount applied for, no matter how worthy the programme may appear. If a loan is made, it will be for the first and most urgent part of the programme, which can be completed in say, a year to 15 months. The next stage of the programme will be considered when more money is needed, and in the light of the borrower's performance and conditions as they may then exist. In this way advances will be made to a borrower successively, a check will be provided on the use of the loan, and funds will not be made available more rapidly than the supplies of goods can be obtained for which the funds are desired.

8. LOAN POLICY.

In studying an application from one of its Members for a loan, the Bank will have to consider many questions, such as:

- (a) The urgency and usefulness of the project, since it is laid down in the Articles of Agreement that the more useful and urgent projects, large and small alike, must be dealt with first. (The aim of the Bank's lending must always be to get the greatest possible results for the amount lent, and it is clear, for instance, that the breaking of a bottle-neck in a devastated country will usually produce more rapid and beneficial effects than a project for developing a latent economic potentiality).
- (b) Whether the purposes for which the proposed loans are to be used are constructive and practical, and will be beneficial both to the borrower and to world economy.

- (c) Whether there exists in the country the willingness and the ability to use its own resources to the fullest possible extent.
- (d) Whether the loan is likely to produce the effects which the borrower anticipates.
- (e) Whether the borrower will be in a position to maintain the service of the loan.

9. THE MAKING OF THE LOAN AND THE BANK'S CONTINUING RESPONSIBILITY

If the Bank decides that it can usefully and properly make a loan, the funds will be made available to the borrower only to meet the purchases for which the loan has been granted. But the Bank's responsibility for the loan does not cease with the granting of that loan. Looking back on the past, a defect in the machinery of private lending has been, that once the loan had been made the responsibility for maintaining its service rested with the borrower, and there was no arrangement for cooperation, or even consultation, between the investor and the borrower. It is the aim of the Administration of the Bank to remedy this defect, by developing a relationship with its borrowers which will result in continuous consultation, and the exchange of information during the whole of the time that the loan is outstanding. The Bank will maintain a proper interest not only in the plan or projects for which the loan was made, but in the whole situation of the borrowing country, insofar as it might affect the security of the loan.

10. COMMERCIAL BANKS AND THE INTERNATIONAL BANK

We come now to the question of the relations between commercial banks and the International Bank in the sphere in which they are both interested, namely, the fostering of international trade. Before considering the general relationship it may be as well to deal with a particular relationship which will arise in connection with loans granted by the Bank.

As we have already seen, the Bank is bound by its Articles of Agreement to see that a borrower draws on a loan only to meet expenses in connection with the project or plan for which the loan was granted, and only as these expenses are actually incurred. It follows therefore, that some machinery will have to be devised to enable borrowers to draw funds in successive amounts, on the presentation of satisfactory evidence that the money is being spent for the purposes for which the loan was granted. The International Bank, to the fullest extent possible, will count on the good services of the commercial banks to provide these facilities.

This brings us to the broader subject of the general relations between the International Bank and the commercial banks. The aim of the International Bank to revive world trade and prosperity can only be brought about if confidence is restored, and the present trickle of international credits becomes a vast flow of funds through private channels, directed to satisfying a great variety of needs. The Bank needs the cooperation of the commercial banks in this great work, and I believe that it is of the greatest importance that these banks should study closely the aims and responsibilities of the Bank, so that their confidence in it may grow, and they may thus lend to its support the whole force of their prestige and influence. These banks have a close and continuous contact with the business public, whose confidence they enjoy because of their resources, their skill and their reputation for sound judgment. The International Bank needs and merits their support.

I need hardly remind you that the Bank alone cannot revive world trade; what it can do is to help to create conditions favourable for that revival. The revival itself will always be dependent on a free and full flow of private credit closely related to the movement of goods; this is the function of the commercial banks. The International Bank can do no more than blaze the trail, and even in the blazing of the trail it will require and seek the cooperation of those banks.

C O N C L U S I O N

To sum up therefore,

We cannot afford to wait and see what will happen.

- (a) World trade will not revive unless we do something more than wait and see.
- (b) The job cannot be done by uncoordinated private loans.
- (c) The Bank has no vague brief, but a charter clearly defining its activities - its fundamental aim is the revival of international trade and world prosperity.
- (d) Since the revival of international trade and of world prosperity depends on the free flow of private credits, the immediate aim of the Bank must be the creation of conditions in which that free flow will be possible: (In the achievement of this aim it will need the cooperation of the Commercial Banks, their skill, their resources and their prestige.)
- (e) The Bank has a three-fold responsibility in all of its lending: to the investors who buy its bonds; to the Members of the Bank, and to the borrower; and that three-fold responsibility will be constantly before it during its operations.

(f) The Bank can lend only if it can borrow, and it will seek, by prudence and wisdom in its lending, and the full discharge of all its responsibilities, to merit the confidence of all of its partners in the great common task of reviving world trade: of the commercial banks, investment banks and similar institutions, and lastly but fundamentally, of the investing public.

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WHAT THE INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
CAN DO FOR WORLD TRADE

Address by

CHARLES C. PINEO

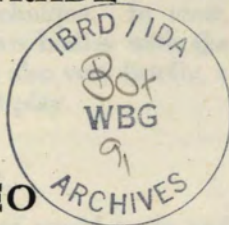
Loan Director

International Bank for Reconstruction and Development

at the

Second Bay Area

Institute of World Trade



San Francisco, California

May 9, 1947

1. INTRODUCTION.

I have come to speak to you today on what the International Bank can do for world trade. I had intended to confine myself entirely to the International Bank, and to make no reference to the functions of its companion organization, the International Monetary Fund, for the reason that I am not an officer of the Fund, and do not feel it appropriate that I should enter into any detailed discussion of its operations and technique. In view, however, of the close connection of these two bodies with the subject of world trade, I shall try to give you also very briefly, a broad outline of the part which the Fund will play.

2. WORLD TRADE BEFORE THE WAR.

Before considering the present position of world trade and the outlook for the future, I would like to remind you of the situation which existed before the war, for it was largely to prevent the recurrence of such a situation that the nations of the world met at Bretton Woods and provided for the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development.

As you all know, free and unhindered trade between countries was rapidly breaking down. One of the major causes of dislocation was a competitive depreciation of currencies and the operation of multiple exchange rates; then there were clearing arrangements and bilateral trade agreements, blocked currency accounts and all that variety of obstruction to the free flow of trade, with which you are all familiar. Every step taken in this direction by every country was taken in the belief that it was in its own interests and for the protection of its own trade, and the combined effect of all these steps was a vast pattern of obstacles to the detriment of the interests of all countries.

3. THE EFFECT OF THE WAR.

On top of this situation, we had the world's most destructive war, a war which destroyed industry, manpower, homes and moral fibre. Hundreds of billions of dollars were poured into the instruments of destruction. Trade itself became very largely a trade in these instruments. The economies of many countries have been devastated or disrupted. We now have the immense task of

restarting the wheels of industry and peaceful trade throughout the world; and one of the greatest problems is the position of those countries which felt the immediate impact of war. In many cases the disruption and dislocation of their economies has been so great that they will not recover within the foreseeable future unless some steps are taken to give them help. We have all learned in recent years that economic isolation is impossible; a world half sick and half well will soon be wholly sick unless some steps are taken to heal the sickness.

It was in anticipation of this world situation that the Bretton Woods Agreements were signed. It was recognized that there would be two major problems to be solved:

Firstly, the protection of the interests of all countries from those currency evils which would hinder and choke the free flow of world trade, and

Secondly, the giving of assistance to countries which, without it, could not take their proper place in world trade, either because they had suffered devastation during the war, or because their resources were not properly developed.

The International Monetary Fund was designed to meet the first of these problems; the International Bank for Reconstruction and Development, the second.

4. THE PART OF THE INTERNATIONAL MONETARY FUND.

There is probably no more powerful element of instability and uncertainty in trade than unpredictable rates of exchange, and a necessary step for the resumption of free trading throughout the world is therefore, the establishment of stable rates of exchange. The forty-four Member countries of the International Monetary Fund have agreed to fix the value of their currencies, and not to vary these values without consultation with the Fund. Thirty-four Members have already declared their par rates of exchange; only ten countries have not yet done so, some of them, under a provision in the Articles of Agreement, allowing for a temporary postponement of the fixing of parities by countries which have suffered enemy occupation.

If, in the opinion of a Member country, it should become necessary to alter the value of its currency, this will be done only after consultation with the Fund. In addition, and most important,

all Members of the Fund have, in effect, agreed to certain basic rules which establish what might be called a code of behavior with regard to exchange practices. During the post-war transitional period, certain restrictions have of necessity to be maintained by a number of countries, but, as the abnormalities caused by the war disappear, it is hoped that these restrictions will also disappear. The ultimate aim is the removal of all restrictions so that payments for current transactions may be made multilaterally.

In order to help all Member countries to approach this goal, a pool of exchange has been created to which every Member has contributed a quota. Each Member pays in gold either 25% of its quota or 10% of its net official holdings of gold and U. S. dollars, whichever is the smaller, and the balance in its own currency. In return, Members temporarily short of foreign exchange for the purpose of meeting current payments abroad, may buy such foreign exchange from this pool, subject to certain limitations both as to the total amount which they may buy, and also as to the amount which they may buy in any one year. In this way Member countries are enabled to obtain their reasonable temporary requirements for the balancing of their current foreign exchange transactions, and so avoid restrictive or disruptive measures.

5. THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.

The International Monetary Fund, then, is primarily intended to function in relation to current trade and to take care of temporary situations. It is not intended to provide the long-term capital needed by devastated and undeveloped countries so that they may make their contribution to world trade. That is the job of the International Bank.

Let us consider first the countries devastated by the war. They have a tremendous task; they must marshal their depleted manpower; they must teach their youth the techniques of industry; they must continue to restrict home consumption in order to increase capital investment, to combat inflation and to buy for themselves abroad the bare necessities for revival. But whatever their own efforts, it is perfectly clear that these countries will not recover without external assistance. This means that world trade will not revive unless that assistance is given.

Although these countries need money urgently, the private investor, mindful of experience between the two wars, and over-

whelmed perhaps by the magnitude of the needs of individual countries, is hesitant to provide it. Private lending did not do what was hoped of it in the inter-war years, and the investor today cannot help remembering that there have been many defaults on loans issued during that period. His reaction is natural, although we must not forget that there were defects in the inter-war lending, which must be borne in mind if we are to get a true picture of what happened. Let us face the fact that our lending was done for gain; it was not a part of a coordinated program; encouragement was sometimes given to borrowers and lenders alike without sufficient understanding of what was involved; loans were sometimes made for unproductive purposes; insufficient care was often exercised to see that a loan was used for the purpose for which it was granted; and high interest rates, instead of being a warning to investors, failed to do anything but to encourage them to invest their money. The question now is: "Can we make a better job of lending this time? Can we help the borrower to make a better job of borrowing this time?"

6. THE BANK'S CHARTER.

The lines on which the Bank must approach its task of assisting in the economic and financial recovery of the world and the conditions which must govern its actions have been clearly laid down in the Articles of Agreement. These conditions reflect the heavy responsibilities which the Bank carries, both towards its Members and towards the investors on whom it must eventually depend for the major portion of the funds which it will lend. They may be summarized as follows:

- First*, the Bank is to assist in the reconstruction of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs, and the development of the less developed countries;
- Second*, it must promote private investment whenever possible, and supplement it where necessary;
- Third*, it must seek to promote the long-range balanced growth of international trade, and the improvement of productivity, of the standard of living, and of conditions of labor throughout the world;
- Fourth*, it must deal with the more useful and urgent projects first;

And finally, the Bank must be satisfied that the borrower would be unable to obtain the loan elsewhere on reasonable terms and that he will be in a position to meet his obligations under the loan.

The fundamental aim of the International Bank is the revival of world trade and prosperity; all its operations are means to that end. The International Bank is therefore, in a special sense *your* bank, because you are vitally interested in the achievement of its purpose.

7. THE BANK AND ITS MEMBERS.

Simply stated, the Bank is a cooperative institution, to which forty-four Member countries belong. These countries have paid certain sums, proportionate to their resources, into a fund which forms the first working capital of the Bank. They have also assumed the liability for much larger sums in order that the Bank might be in a stronger position to raise further funds for its purposes.

The Bank is, therefore, designed to promote mutual assistance among its Members for the reconstruction and development of their territories. Loans will be made only under the responsibility of a Member of the Institution, and this should have an important effect on the relationship between the borrower and the lender. Both have a common interest not only in the success of the loan, but also in the success of the Institution; this permits broader and closer relations than is ordinarily the case between creditor and debtor. Encouragement will be given to a full exchange of information with regard to all matters of mutual interest, and full opportunity to consult with each other on all such matters, not only at the time the loan is made, but throughout its continued existence.

8. THE BANK'S POSITION AS A LENDER.

There are some special features in the Bank's position as a lender which are of great importance for the proper fulfilment of its task:

Firstly, its loans will be made with a view to their effect not only on the economy of the borrowing country, but also, indirectly, on the economy of other countries; thus a loan for the equipment of a certain industry in one

country may also benefit a neighboring country which is in need of the output of that industry.

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Thirdly, it can offer the private investor the opportunity of sharing in the work of the Bank, through subscription to the Bank's debentures, while enjoying a security which he could not obtain from direct lending.

9. FUNDS AVAILABLE TO THE BANK.

Now for a word about the Bank's resources, a subject which has been surrounded by a haze of misinformation. The Bank depends in the first instance on its own subscribed capital, of which 20% will be paid up by the end of the present month. The balance of 80% is to remain subject to call, only if it is required to meet the obligations of the Bank. If this is ever necessary it will then be payable in gold, U. S. Dollars, or the currency required to discharge the obligations of the Bank. This uncalled 80% is, therefore, in the nature of a guarantee fund for the further security of those who buy the Bank's debentures. The only working funds of its own which the Bank possesses consist of the 20% of called up capital. But only 2% is payable in gold or U. S. currency, the remaining 18% being payable in the currency of the Member country; this latter portion can be used for loans only with the specific consent of the country concerned. It is obvious that under present conditions it would defeat the Bank's purpose to utilize the currency of any country which is itself in need of credit, and we may therefore, say that the 20% immediate capital contribution of the U. S., plus the 2% payable in gold or dollars by the other nations, makes up the present loanable capital of the Bank; this sum totals approximately \$725 million.

For the supply of further funds the Bank must rely on its capacity to borrow, and its capacity to borrow will depend entirely on the confidence which it is able to inspire in the investing public. There is no danger, as has been suggested, that the Bank may lend too much money. Apart from the limitation imposed in its Articles of Agreement, that its loans must never exceed its capital, surplus and reserves, there is this practical limitation that it can only lend if it can borrow. After it has drawn on what I have just called its present loanable capital of \$725 million, there-

fore, it will be entirely dependent on the judgment of the public regarding its portfolio, and on the confidence which its policy will have merited. Although, therefore, the International Bank must not make loans which private bankers would be willing and able to undertake on reasonable terms, it must not make bad or imprudent loans. It must act with prudence and wisdom in the building up of its portfolio; for it is on that portfolio, and on the confidence which it will inspire in the public, that the capacity of the Bank to obtain further funds will eventually depend.

10. USE OF AVAILABLE FUNDS BY THE BANK.

Applications for loans totalling \$2,554 million are in the hands of the Bank and under study; but this does not mean that the Bank is contemplating or considering lending that amount in the near future. Most of the applications cover reconstruction programmes extending over years—some as long as five years. The Bank must of necessity study the whole programme in each case, but it is not prepared to commit itself for the full period, or for the full amount applied for, no matter how worthy the programme may appear. If a loan is made, it will be for the first and most urgent part of the programme, which can be completed in say, a year to 15 months. The next stage of the programme will be considered when more money is needed, and in the light of the borrower's performance and conditions as they may then exist. In this way advances will be made to a borrower successively; a check will be provided on the use of the loan, and funds will not be made available more rapidly than the supplies of goods can be obtained for which the funds are desired.

11. LOAN POLICY.

In studying an application from one of its Members for a loan, the Bank will have to consider many questions, such as:

- (a) The urgency and usefulness of the project. (The aim of the Bank's lending must always be to get the greatest possible results for the amount lent, and it is clear, for instance, that the breaking of a bottleneck in a devastated country will usually produce more rapid and beneficial effects than a project for developing a latent economic potentiality.)

- (b) Whether the purposes for which the proposed loans are to be used are constructive and practical, and will be beneficial both to the borrower and to world trade.
- (c) Whether there exists in the country the willingness and the ability to use its own resources to the fullest possible extent.
- (d) Whether the loan is likely to produce the effects which the borrower anticipates.
- (e) Whether the borrower will be in a position to maintain the service of the loan.

12. THE MAKING OF THE LOAN AND THE BANK'S CONTINUING RESPONSIBILITY.

If the Bank decides that it can usefully and properly make a loan, the funds will be made available to the borrower only to meet the purchases for which the loan has been granted. But the Bank's responsibility for the loan does not cease with the granting of that loan. Looking back on the past, a defect in the machinery of private lending has been that, once the loan has been made, the responsibility for maintaining its service rested with the borrower, and there was no arrangement for cooperation, or even consultation between the investor and the borrower. It is the aim of the Administration of the Bank to remedy this defect by the development of a relationship with its borrowers, which will result in continuous consultation and exchange of information during the whole of the time that the loan is outstanding. The Bank will maintain a proper interest not only in the plan or projects for which the loan was made, but in the whole situation of the borrowing country insofar as it might affect the security of the loan.

13. THE BANK'S LOANS AND WORLD TRADE.

We come now to a more general consideration of the relation between the Bank's loans and world trade. When a devastated economy is repaired or a backward one developed it is not only the country concerned which benefits: all countries benefit. Markets are re-opened, fresh sources of supply are made available. In trade, as in all human activity, the interests of one are the interests of all; the health of one member contributes to the health of the whole body.

International Bank loans, therefore, will benefit everyone. Not only will these loans produce the articles of trade, but they will help restore that confidence on which, in the last resort, trade depends. If we can help to put countries on their feet again, if we can give them the assistance which they need during their convalescence or the development of their economic strength, we shall have contributed a great deal to the restoration of confidence, and business integrity and experience may again receive their proper credit rating.

The world has been through such suffering, and is faced with such problems, that the restoration of faith in the future would perhaps be the greatest contribution that could be made to recovery. In the restoration of that faith the International Bank has an important part to play.

I need hardly remind you that the Bank alone cannot revive world trade; what it can do is to help create conditions favorable for that revival. The revival itself will always be dependent on a free flow of private credit closely related to the movement of goods and this is the function of the commercial banks and the traders themselves.

I believe it is of the greatest importance for all of us that those interested in world trade study closely the aims of the Bank and the policies it pursues to accomplish those aims, so that their confidence in it may grow and so that they may lend to its support the whole force of their influence, with advantage to everyone.

RELEASE AFTER 12:30 P.M.
TUESDAY, JUNE 17, 1947.



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

SUMMARY OF ADDRESS BY CHARLES C. PINEO
LOAN DIRECTOR, INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT, AT THE 27TH ANNIVERSARY LUNCHEON OF THE
BETTER BUSINESS BUREAU OF WASHINGTON, D.C.
HOTEL STATLER, JUNE 17, 1947

Stressing the growing awareness that the prosperity of this country is directly dependent upon the state of the world's economic health, Mr. Pineo, Loan Director of the International Bank for Reconstruction and Development, told the members of the District of Columbia Better Business Bureau at their annual luncheon meeting at the Hotel Statler, Washington, today how the International Bank can aid in the revival of an international economic atmosphere conducive to world prosperity.

After briefly reviewing the plight of world trade before the war when free and unhindered flow of goods was breaking down and competitive depreciation of currencies and multiple exchange rates were causing dislocation, Mr. Pineo pointed out that the advent of war completed the economic disintegration. The International Monetary Fund and the International Bank were created to overcome currency evils that hinder the free flow of world trade and to give aid to countries which could not take their place in world trade because of devastation or economic under-development, Mr. Pineo stated.

"The Bank is, therefore, designed to promote mutual assistance among its Members for the reconstruction and development of their territories. Loans will be made solely to Member countries or for projects within Member countries which carry guarantees satisfactory to the Bank. This should have an important effect on the relationship between the borrower and the lender. Both have a common interest not only in the success of the loan, but also in the success of the Institution; this permits broader and closer relations than is ordinarily the case between creditor and debtor. Encouragement will be given to a full exchange of information with regard to all matters of mutual interest, and full opportunity to consult with each other on all such matters, not only at the time the loan is made, but throughout its life," Mr. Pineo said.

He pointed out that to lend the Bank must rely on its capacity to borrow which will depend on the confidence it is able to inspire in the investing public. "It must act with prudence and wisdom in the building up of its portfolio; for it is on that portfolio, and on the confidence which it will inspire in the public that the capacity of the Bank to obtain further funds will eventually depend," Mr. Pineo stated.

In reviewing the action of the Bank on loan applications, Mr. Pineo indicated that they now total \$2,554 million. These applications will be considered in the light of the urgency and usefulness of the project for which the funds will be used, the usefulness of the loan to both the borrower and world trade, the willingness and ability of the borrower to use its own resources to the fullest extent, whether the loan can do what the borrower expects, and whether the borrower can maintain service of the loan.

Mr. Pineo stressed the development of a relationship between the Bank and the borrower which will result in continuous consultation and exchange of information during the whole of the time that the loan is outstanding.

"International Bank loans will benefit everyone. Not only will these loans produce the articles of trade, but they will help restore that confidence on which, in the last resort, trade depends. If we can help to put countries on their feet again, if we can give them the assistance which they need during their convalescence or the development of their economic strength, we shall have contributed a great deal to the restoration of confidence, and business integrity and experience may again receive their proper credit rating," Mr. Pineo concluded.

*Part of talk - British Broadcasting Corp. -
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For use end of May, 1947.
29th May, 1947*

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By C. C. Pineo, Loan Director

While the war was still being fought, the representatives of 44 countries met at Bretton Woods to make plans for the restoration of normal economic and financial conditions as soon as possible after the end of the war. It was realized that when the war was over many countries would be in great need of money to repair the destruction of war or to develop their resources. It was also realized that the uncertainty which normally follows war and the enormous needs of those countries might make private lenders hesitate to lend sufficient money for this purpose. It was, therefore, agreed to set up the International Bank for Reconstruction and Development to carry out this task.

I think that the simplest way you can understand the Bank is to know that it is a cooperative institution, a sort of club, which 44 countries have joined. It has a capital of about \$8 billion, of which 2% has been paid up in gold or U. S. currency, and 18% in the

currency of the Member countries. This latter amount, however, is not available for lending without the consent of the Member, for the very good reason that to lend it would, for the Member country, be the equivalent of exporting on credit, which in many cases it cannot yet afford to do; in fact, only the United States has so far agreed to this 18% being lent. The remaining 80% of the capital is to remain subject to call only if it is required to meet the obligations of the Bank; if this is ever necessary, it will then be payable in gold, United States Dollars or the currency required to meet the obligations of the Bank. It is therefore in the nature of a guarantee fund and is not available for lending.

The present position, then, is that the Bank has immediately available for lending a small amount from every country (2% of its subscription) and a larger amount from the United States (20% of its subscription); these amounts total approximately \$725 million.

But \$725 million is not enough for all the loans which the Bank will be asked to make and it will, therefore, have to borrow addi-

tional money. The United States is at present the only country in which it can borrow on a large scale; moreover, most of the countries to whom the Bank will lend need dollars more than any other currency. Plans are, therefore, being made for the offer of a debenture issue to the American investor and an office has recently been opened for this purpose in New York. The Bank also hopes that, as a result of the general improvement to which its own operations will contribute, it will eventually be able to use the whole of the paid up subscriptions of the other countries and also to borrow further amounts in some of those countries. Meanwhile, although the Bank will borrow in the United States, this does not mean that the money it lends must be spent there. It is laid down that the Bank may not impose any conditions as to where the borrower shall spend the proceeds of a loan: he is free to buy wherever he finds it to his best advantage.

When an application is made for a loan, the Bank considers it in the light of certain guiding principles, such as: Is the financial position of the country in order; if not, is it being put in order? Is the need for the loan urgent? Can it be obtained elsewhere on reason-

able terms? Will it benefit both the borrower and other countries? Is the borrower willing to make full use of its own resources? Is the amount of the loan reasonable in relation to those resources? Is the loan likely to produce the expected results? What are the repayment prospects?

The Bank does not seek to make profits and it will lend money at as near cost as possible. The Articles of Agreement provide, however, that during the first ten years of the Bank's existence it must also charge, on all loans made out of borrowed funds, a commission of not less than 1% nor more than 1-1/2% for the purpose of forming a special reserve fund. This charge is in no way related to the interest rate and is intended to build up a fund for the protection of those investors who lend their money to the Bank and also for the protection of the Bank's own capital.

The Bank has already had 9 applications from its Members for a total amount of \$2,554 million. Each application is studied with a view to giving priority to the most urgent and useful part, and if a loan is made the funds can only be withdrawn as they are

actually required for the purposes specified. A loan of \$250 million has been granted to France. Discussions with Denmark, Holland, Czechoslovakia, Luxembourg, Poland, Chile, and Mexico are in progress.

In the past there has usually been no arrangement for co-operation or even consultation between the investor and the borrower once the loan had been made; but the Bank will seek to develop a relationship with its borrowers which will result in continuous consultation so long as the loan is outstanding. The Bank has this great advantage that it is, as I have said, a cooperative institution, in which loans are made only under the responsibility of a Member. Not only does this mean that there should be closer relations than are normally possible between borrower and lender; it also means that no grounds are given for feeling that there is any infringement of sovereignty in negotiations. All Members of the Bank are sovereign nations, and all have mutually agreed on the rules governing the making of loans. Moreover, any undertaking given by a borrower in such circumstances forms no precedent for relations with other lenders.

The ultimate aim of the Bank is, of course, the revival of world trade and prosperity. Assistance given to one country benefits indirectly other countries, since all countries are inter-dependent. It is the Bank's hope that it will be able to contribute a great deal to the restoration of that confidence on which trade and prosperity so largely depend. In the present state of the world the restoration of faith in the future is perhaps the greatest contribution that could be made to recovery.

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The International Bank for Reconstruction and Development is strictly a business institution, Charles G. Pineo, of Washington, D. C., its Loan Director, made plain to the Rotary Club of Albany, at its weekly luncheon today (Friday, July 25, 1947).

"The Bank cannot ignore this test of its lending for three main reasons", he said.

- "(1) It borrows funds at interest from the public and therefore must find sound remunerative uses for them, although it does not wish to receive a greater return than will enable it to pay its way.
- "(2) Its fundamental purpose is to promote genuine economic reconstruction and development of its members and it must therefore insure that its loans are only used for these purposes.
- "(3) It is charged with the duty of paving the way for revival of foreign private investment, and must therefore try to show the private investor that foreign investment can be put on a sound basis."

Mr. Pineo pointed out that there are 44 nations which have subscribed to the capital of the Bank and that a borrowing member is, in effect, assuming an obligation to its member nations as well as to the investing public of the United States.

Mr. Pineo explained in detail the manner in which the Bank processes a loan application. He stressed the fact that it is not a simple operation but a very complex procedure which entails the thorough checking of the information contained in the application by financial, economic and technical experts, constant negotiation with the prospective borrower, the consideration of the request in the light of the Bank's purposes, and if approved, the use of the method of successive advances to the borrower rather than the immediate granting of the full amount requested. He pointed out that the Bank continues its collaboration with the borrower throughout the life of the loan.

"The Bank", Mr. Pineo said, "was designed as an instrument of world economic recovery and it must therefore not push caution to the point of waiting for such recovery to appear before undertaking commitments. It is not enough", he added, "for it to have the negative ability to distinguish unsound purposes; it must also be able to recognize the key points where unstinted aid will make all the difference."

Speech Series # 23

IOWA BANKERS' ASSOCIATION
7th October, 1947.



INTRODUCTION

I want to say, first, how much I appreciate the opportunity of being present at this convention and of speaking about the Bank to such a distinguished gathering. It is a matter of great satisfaction to the Administration of the Bank to be able to present to you a picture of what the Bank is trying to do towards the restoration of better conditions in the post-war world. The success of the Bank will depend very largely upon the interest which is shown in its activities by the banking community, and the opportunity to give to this convention an outline of its activities is, therefore, especially welcomed. If Mr. McCloy were in this country, he would have been here himself in response to your invitation, but, as you may know, he is still in Europe; so I have the honour and pleasure of being with you for this convention, while Mr. McCloy has the less comfortable and more austere duty of touring Europe.

C.C. Pineo,
Loan Director.

1. ORIGIN OF THE BANK: BRETTON WOODS

As you all know, the International Bank for Reconstruction and Development had its origin in the Bretton Woods Conference of 1944. This conference of 44 nations was called together, while the war was still being waged with the utmost intensity, to consider the economic and financial problems which seemed likely to be encountered after military victory had been secured. The statesmen who convened this conference were under no illusions that victory would be followed automatically by the restoration of normal economic life within the combatant nations or of normal trade relations throughout the world. The war then being waged was the most destructive in the history of mankind, technical and scientific progress had made possible an efficiency of material destruction which was without precedent. Total war was shattering the means of production on a tremendous scale and psychological warfare was adding its pressure to the cumulative strain of years of conflict. During these war years, too, production was of necessity mainly directed to things useless in themselves and valuable only because they could destroy the means of production in others. Trade had become largely a trade in these instruments of destruction and, owing to the necessities of war, was for the most part controlled by governments themselves; so that peaceful, private commerce between nations, with all its opportunities for the proper use of human energy and initiative, was virtually at a standstill.

It was recognized at Bretton Woods that there would be no considerable recovery of world production and world trade without international investment, but while it was clear that many countries
/would

would be in great need of money to repair the destruction of war or to develop their resources, it was also realized that the uncertainty which normally follows war and the enormous needs of those countries would be likely to deter private lenders from supplying sufficient money for this purpose. It was to fill this need that the International Bank for Reconstruction and Development was established. For unless sufficient money was lent, and lent at long term, to provide for basic reconstruction and development needs, recovery would be so delayed that economic and political stability would be endangered; and all countries would be losers.

2. THE BANK'S CHARTER - THE ARTICLES OF AGREEMENT

The Articles of Agreement of the Bank lay down the lines on which it must approach its task of assisting in the economic and financial recovery of the world. They may be summarized as follows:

First, the Bank is to assist in the reconstruction of economies destroyed or disrupted by war and the development of the less developed countries.

Second, it is to promote private investment whenever possible and supplement it when necessary.

Third, it must seek to promote international trade and the raising of levels of productivity, standards of living and conditions of labour throughout the world.

It is also laid down that the Bank must deal with the most useful and urgent projects first and that it must be satisfied that the borrower would be unable to obtain the loan elsewhere on reasonable terms and that he will be in a position to meet his obligations under the loan.

3. THE CAPITAL OF THE BANK

The authorized capital of the Bank is \$10 billion, divided into 100,000 shares of \$100,000 each. The total amount which has been subscribed is just under \$8½ billion, of which 20% has been called. The remaining 80% is liable to call only if required to meet the obligations of the Bank. As regards the capital paid up, 2% was payable in gold or U.S. dollars and 18% in the currency of the Member country concerned. The whole of this 20% has now been paid up, with the exception of a small amount (about \$5 million), representing deferments, under a provision in the Articles of Agreement, by certain countries which have suffered enemy occupation.

The Bank, then, is a cooperative institution, whose Member countries have paid certain sums, proportionate to their resources, into a fund which formed the first working capital of the Bank; they have also assumed the liability for much larger sums in order that the Bank might be in a stronger position to raise funds for its purposes.

4. FUNDS AT THE BANK'S DISPOSAL

The funds at the disposal of the Bank consist in the first place of its paid up capital and, in the second place, of such funds as it may borrow in the markets of its Members. As regards the paid up capital, although the 2% payable in gold or U.S. dollars is freely available for lending, the remaining 18% (which is payable in the currency of the Member country) may be used for loans only with the consent of the Member concerned. This provision was, of course, necessary since many countries would be in no position to extend immediate credit to others and could only afford to export in return for essential imports. So far, the United States, the only

country which is in a position to supply goods on a large scale to other countries without requiring immediate countervalue, is the only Member which has given permission for the whole of its 18% to be used in making loans; Belgium has given this permission to the extent of \$2 million worth of its currency. Other countries can be expected to follow suit, but the amounts so made available cannot be great until more countries are able to export goods without requiring immediate countervalue.

The effect of the payment of the calls on the 20% paid up capital was to place at the disposal of the Bank U.S. dollar funds amounting to approximately \$727 million and the equivalent of \$873 million of currencies other than U.S. dollars, the use of the latter for lending purposes being subject, as I have said, to the consent of the Member concerned.

As regards further funds for its purposes, it is clear that the Bank must chiefly depend in the immediate future on the markets of the United States, since countries which are unable at present even to allow the use for lending of the amounts of their currencies paid in as part of their capital subscriptions cannot afford to make funds available through their financial markets. As you all know, the Bank made its first offering of bonds in the United States in July last. This offering, consisting of \$100 million of 10 year 2-1/4% bonds and \$150 million of 25 year 3% bonds, was heavily over-subscribed. I think it is fair to say that this was largely due to the fact that misunderstandings as to the Bank's policies and purposes which had been prevalent in its early days had been dispelled. It is now generally realized that the Bank may make loans only as investments which must be repaid and that it is in no sense a relief organization.

5. THE ROLE OF THE BANK

This brings me to the question of the role of the Bank in the affairs of the world today. Although the Articles of Agreement established the principles on which the Bank must operate, the role which it will play will clearly depend on the state of the world in which it has to operate. We must face the fact that the economic state of the world today, two years after the war, is worse than was anticipated either at the time of the Bretton Woods Agreements or in the days immediately following victory. It has become clear that the effects of the war were deeper and of more profound significance than had been realized. The dislocations of industry, of trade and of human life have been greater and more difficult to remedy than had been foreseen and recovery has further been hindered by the rapid development of unforeseen political conflicts.

The situation in effect is this. It was known that immediately after the war it would be necessary to give short-range relief in the form of the basic necessities of life, such as food, clothing and fuel, in order that countries which had suffered devastation and impoverishment as a result of the war might be sufficiently restored to make a start on the rebuilding of their economies and on the turning of their human and material resources to productive use. Provision to meet these basic needs was made through UNRRA and formidable sums were disbursed by that body in the form of grants. But the needs were far greater than had been apparent, and the resources of UNRRA were not sufficient to accomplish the purposes for which it was established. The stage of relief has not been quickly succeeded (as had been hoped) by the state of reconstruction; we have to face the fact that relief needs

have not yet been satisfied and that many countries are not yet able to stand on their own feet or to carry their own burdens.

To the extent that relief is still necessary the International Bank cannot enter into the picture, for it is not a relief organization and can lend only after it is satisfied with the prospects of repayment. But the granting of relief can have the effect of restoring the vitality and energy of a nation to the point at which the Bank would be justified in granting a loan so that that vitality and energy might be turned to productive purposes. The question then is simply at what point the Bank can enter the field of recovery and in what manner it can then best use the funds at its disposal.

Let me illustrate by referring briefly to the Marshall Plan. It raises very important questions. The needs of relief must be separated from those for reconstruction; when that has been done, and only then, the Bank can consider reconstruction needs. The question then will be: "Is the Bank to come in? If so, at what point and to what extent?"

It has been stated that something over \$3 billion is required to purchase machinery and equipment over a four-year period and that the Bank could finance this part of the plan. It is true that financing of this character falls within the scope of the Bank's activities but even assuming that after examination this lending were found safe and desirable in itself, there would still be the question of how much money the Bank can raise for lending. If the money we could raise for lending by, say, the end of 1948 was \$1 billion, would we be justified in devoting practically the whole of this amount to loans to Europe? Should the Bank have all or such a large part of its

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resources in that area? Would the Member countries who have counted upon the Bank for development loans agree to such a program? These few illustrations will give you some idea of the problems which the Marshall Plan may raise for us. It is our duty to follow developments closely so that we may be in a position to make decisions quickly and to give informed advice if we are required to do so.

6. THE BANK'S LENDING

Since it is clear that the funds required for reconstruction and development are enormous and the resources of the Bank are limited, it is of the greatest importance that the Bank should seek to obtain the maximum effect from the use of its money. One of the fundamental principles of the Bank's lending, therefore, is that as far as possible its loans should be used to eliminate bottlenecks to production, or, by some other strategic use, to make the greatest possible contribution to the revival or stimulation of production; in this way, comparatively modest sums can have effects out of all proportion to the size of the investment. Whether the money is spent on repairing a damaged source of production or in establishing what might be called a strategic new project which greatly stimulates production, the aim must always be to obtain the greatest possible results in the shortest possible time in proportion to the amount spent.

Apart from this basic principle of the strategic use of funds, certain other general principles have emerged as a result of the examination of loan applications, the study of the problems which they have raised, and the discussions which have taken place with prospective borrowers. It may be worth reviewing briefly the most important of these principles.

Acceptance of Risk

The Bank must not be deterred from making loans simply by reason of the general economic and political uncertainties which at present obstruct the free flow of private capital; on the contrary, one of the objectives of the Bank's loans is to help to remove these uncertainties and to establish conditions in which private capital will be able once more to play its part. Nevertheless the Bank cannot make imprudent loans, for its loans form the collateral for its own borrowings. In the last resort, the Bank will depend for its power to borrow on the confidence which its lending policy will have created.

Self Help

The Bank's resources must not be used to relieve a borrowing country of tasks which that country could justifiably be asked to perform itself; the major effort in reconstruction or development must always be made by the people of the nation concerned. No country can borrow its way to prosperity. Prosperity can only be earned by hard and prolonged effort.

Limited Commitments

A single loan application may relate to a plan which will take several years to complete. It is the Bank's policy, however, to grant loans in such cases only to cover the needs of a relatively short period and to invite a further application at the end of that period, which will be considered in the light of the progress made with the assistance of the first loan and of the position as it then appears.

Control Over Use of Proceeds

When a loan has been made, the proceeds are made available to the borrower only against evidence that they are being used in payment for goods specified in the Loan Agreement. Arrangements are also made by observation within the borrowing country to ensure that the goods so purchased are in fact put to their intended use.

Information and Consultation

The Bank requires to be kept fully informed not only as to the use of the funds which it provides, but also as to the general economy of the borrower, since this affects the security of the loan. The regular submission of information and frequent consultation which this involves calls for a much closer relation than has been usual between creditor and debtor in the international field, and is made possible only because the Bank is fundamentally a cooperative institution, which lends only to its Member countries or upon their guarantee; since the borrower or guarantor is a Member of the institution, it has an interest in the Bank's success and indeed participates in the framing of its lending policy.

7. EUROPEAN RECONSTRUCTION

The first applications for loans were mostly from European countries, and since the Bank is bound to deal with the most useful and urgent projects first, it is natural that particular attention has so far been given to problems of European recovery. Before the war, more than half the world's trade was done by European countries. These countries still have the productive capacity and the skills; to put them to work by furnishing the necessary machinery, materials and fuel presents a great opportunity to raise the level of world production with a minimum of outlay.

Disappointment with the progress already made in European recovery is natural, but it must be remembered that the principal reason why recovery is taking longer than was expected is that the effects of the war were deeper than had been realized. There is in fact no cause for despondency that, only two years after the conclusion of the most destructive war of all time, economic stability has not yet been achieved. Reconstruction and development take time; they require sound and detailed economic planning, the restoration of financial and monetary stability and the prolonged efforts of millions of human beings. Much has already been achieved, and the picture is apt to appear less favorable than it actually is owing to the fact that the most acute shortages are in consumer goods: material and labour are necessarily being diverted to the reconstruction of the basic stocks of wealth - housing, transport, plants, tools, machinery and raw materials. The detailed investigation which the Bank makes of every loan application has generally revealed greater progress than would appear from a superficial review of the state of the country, in which attention is naturally attracted to deficiencies which still exist rather than to deficiencies which have been removed.

It may be of interest here to review briefly the four loans which the Bank has granted for European reconstruction.

France

The Bank's first loan was one of \$250 million to France. The importance of France in the economic position of Europe made it particularly fitting that she should be the first country in whose reconstruction the Bank should play an active part.

In spite of the gravity of the French situation as it is

today, we must not overlook the tremendous progress which France has made in overcoming the effects of the war. By the end of 1946, her production had been restored to approximately 90% of the 1938 level and the volume of exports to 75%. In spite of the difficulties and uncertainties facing France, therefore, the Bank believes that its loan to that country will hasten the progress of reconstruction both in France and in Europe as a whole, and that the risks involved are of the type which the Bank was designed to accept.

Netherlands

The Bank's second loan was one of \$195 million to the Netherlands. The Dutch people have displayed remarkable determination and energy and have achieved great progress in restoring output and combating inflation. But the abnormally heavy imports necessary to make good war damage and losses, the loss of Germany as the principal source of imports and as an important market, and the decline of supplies and revenue from the Dutch East Indies have placed a heavy strain on Dutch foreign exchange resources. This may be judged from the fact that 35% of essential imports in 1947 will have to come from the United States, as against only 11% in 1938. The excellent debt record of the Netherlands and its long tradition as an important creditor nation make it a good credit risk.

Denmark

The Bank's third loan was one of \$40 million to Denmark. It was granted for the purpose of hastening economic recovery by the purchase of agricultural and textile machinery, machine tools, trucks, steel products, textiles and chemicals. Denmark /has

has already taken effective steps to create the healthy internal conditions - a balanced budget and stable price and wage levels - which should result in the Bank's loan having the most rapid effects.

Luxembourg

The Bank's fourth loan was one of \$12 million to Luxembourg. It was granted for the purpose of financing the purchase of equipment for the steel industry and of rolling stock for the railways. Iron and steel production is the major industry of Luxembourg and exports of metallurgical products in the years preceding the war comprised about 80% of all exports. Owing to under-maintenance during the war the industry now needs to be modernized and adapted to post-war market requirements. The railways also are of vital importance, particularly as international carriers linking the Ruhr, the Saar, Lorraine, Switzerland and the Low Country ports. The Bank's loan, by providing the means for raising the volume of traffic of Luxembourg's railways and for expanding the country's capacity to produce the type of steel products for which there is a heavy demand, will contribute not only to the recovery of Luxembourg but also to that of her neighbors.

In addition to the four loans already granted for European reconstruction, the Bank has received and is examining applications for loans from Czechoslovakia for the reconstruction of war damage and losses and for the restocking of raw materials; from Poland for the purchase of equipment and materials for coal mining, the iron and steel and textile industries, electricity and transport; and from Italy for purchases of equipment necessary to restore the damage suffered by that country's industry and transport system during the war.

As regards applications from non-European countries, we have so far received one from Chile for hydro-electric, forestry, harbor, transport and railway projects; one from Mexico for irrigation, hydro-electric, pipe-line, highway, railroad and harbor projects; and one from Iran for the development of agriculture and transport. All these applications are receiving the most careful and thorough study. Fact-finding missions have visited Denmark, Poland, the Ruhr, Brazil and Italy; and invitations have been accepted to send a similar mission to Mexico. Discussions are also proceeding with other countries regarding their development plans.

8. THE REST OF THE WORLD

The urgency of the recovery of Europe does not detract from the importance of assisting countries of other areas of the world, such as Latin America, Asia, Africa and the Middle East. Indeed, the Bank recognizes that the need for reconstruction loans will pass within a few years, and the financing of development projects will become the primary concern of the Bank. We must face the fact, however, that the Bank cannot possibly do the whole job of financing such development; this can only be done by the free flow of private capital. But the Bank can make a beginning and can give its attention to such basic things as the improvement of the credit position of the countries concerned. The removal of obstacles to the free flow of private capital is a matter of prime concern to the Bank.

Existing defaults are one of the most obvious obstacles to the restoration of credit. In some cases the basic causes of default were beyond the control of the borrowing country and it is not suggested that every country with outstanding foreign bonds in default could or should resume payment on all its bonds in accordance with

their original terms. But in some cases the default was due to unsound financial and economic policies; in such cases agreement with creditors would inspire more confidence and go further towards re-establishing credit if it were undertaken as part of a program of financial reform. In the case of applications for loans by such countries, the Bank takes the view that a program to deal with existing financial and economic problems must precede the consideration of a program for long-range development. The financial and economic stability of its borrowing Members is of the greatest importance to the Bank in raising funds for its operations; if this stability does not exist the funds will not be forthcoming. It is therefore, essential that Members borrowing from the Bank should have a sound fiscal policy, a healthy balance of payments, and good relations with their creditors. The Bank cannot assist a country which neither has financial and monetary stability and credit nor the willingness to take action to achieve them. Such lending would be neither prudent nor productive. But given the willingness to take action to establish a sound fiscal situation, the Bank can assist both in obtaining the necessary technical assistance for this purpose and in the financing of a long-range development plan which can succeed only against a background of fiscal stability.

The help which the less well developed nations need for a full realization of their potentialities should not be limited to financial advice and loans. Because these countries lack the advanced technologies and skills which characterize more developed nations, the Bank may be asked to cooperate more closely in the consideration and formulation of their plans, including the obtain-

ing of the necessary technical assistance. Here again the Bank is in a position of exception^{al} advantage as a cooperative institution with no object but the good of its Members.

10. THE BANK AND THE REVIVAL OF INTERNATIONAL LENDING.

There was once a disposition to question whether the Bank would be sufficiently careful and prudent in the use of the funds at its disposal; whether, in fact, it would exercise as much prudence as would be exercised by private interests in such matters. I think it is now known that the thoroughness with which applications for loans are investigated and the responsibilities which the Bank accepts both for the use of the proceeds of a loan and for the loan itself during the whole time that it is outstanding, are establishing a new standard of responsibility in international lending.

It is indeed important that there should be in the future a greater sense of responsibility both in borrowing and in lending than has frequently been the case in the past, which, as you all know, contains the record of much bad borrowing and bad lending, particularly in the inter-war years. The investor should be interested in the welfare of the borrower and must be indeed in a sense his partner; a recognition of this principle both by borrowers and lenders would create a sense of cooperation and of mutual responsibility, in place of the unfortunate mutual antagonism which has often developed in the past, when the borrower has felt exploited and the lender has felt cheated. It is the hope of the Bank that, by virtue of its unique position as a cooperative institution, lending only to its Member countries or under their guarantee, it may be able to promote relations between debtors and creditors in the international field which will be greatly to the benefit of both.

The restoration of confidence in international lending is essential to the revival of world trade and of world prosperity; to help in rebuilding that confidence is the fundamental purpose of the Bank.