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THE WORLD BANK  
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The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
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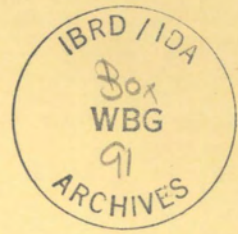


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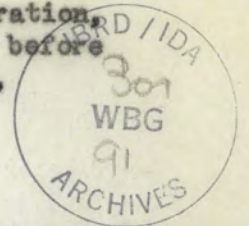




PARKER

"UNCLE SAM LOOKS ABROAD"

An Address by Chauncey G. Parker, Director of Administration,  
International Bank for Reconstruction and Development, before  
The Cotton-Textile Institute, Inc., New York, New York,  
October 22, 1947.



When you leave England these days, in the autumn of 1947, the traveler proceeds to Southampton twelve or twenty-four hours ahead of sailing time, depending upon whether he travels first class, cabin class or tourist. But all classes must undergo a most rigorous though very polite customs examination. Whether British or alien you may take nothing of value with you unless you have first queued up and obtained an export permit. You have experienced this sort of examination in other countries but England has always been a world trading country and you are suddenly impressed with the low state into which world trade has fallen. If you have motored down from London in the evening, as I was lucky enough to do, the Queen Elizabeth, its colossal orange and black funnels floodlighted, looms up while you are still a mile or more from the docks. You proceed through the city, its war wounds healing to a scar, you board the ship, go to bed and the next morning have an experience for which only a month or more on England's austerity diet can prepare you. The breakfast menu handed to you has a dozen or more varieties of fresh fruits and juices, and so on down the line. You haven't seen such food for weeks. You feel like the cowboy who, having struck it rich, visited the best hotel in town, tossed the bill of fare aside and ordered fifty dollars worth of ham and eggs.

If you are a hotel guest you can eat a lot in England so far as bulk is concerned, but it is like eating spaghetti, without sauce, butter or cheese, so far as tickling your palate is concerned, and like it again because an hour later you feel hungry. It is true that in England or in France you see no

starving people, but you see people who are hungry both spiritually and physically, and puzzled as to why things are the way they are.

We had been attending the Second Annual Meeting of the Boards of Governors of the International Bank for Reconstruction and Development and its sister organization, the International Monetary Fund. The chief financial officers of forty-five nations, the stockholders of these institutions, were assembled in London. England had just found it impossible to continue sterling dollar convertibility and the conferences on the Marshall plan were culminating in Paris. Representatives of Latin America were protesting that development of underdeveloped areas should receive equal consideration by the Bank with reconstruction. The governments of every country, struggling to remain in power, wondered if they could do so and retain their ideologies and keep the promises they had made to get elected. They were face to face with the curse of bad money and its dreary companions, customs barriers, price fixing, unbalanced agricultural and industrial production, pendulous bureaucracy, and worst of all the inhibiting effect on the hopes and energies of the people.

I heard a highly placed Englishman ask a Belgian diplomat, "To what do you attribute the prosperous and productive times in Belgium?" The Belgian thought a moment and said, "To five things. First, to the liberation of my country by the gallant British and American troops. Second, to the fact that this liberation was swift enough and early enough to prevent destruction of our plants by the enemy. Third, to the fact that the war was still being waged and our people had tremendous incentive to work for victory. Fourth, to the vigorous and really courageous steps taken by our government to put our financial house in order. And fifth, its intelligent action in releasing

consumers' goods to provide incentives for work." In other words, the Belgian government had succeeded in releasing the energies of the people. Europe's basic problem, the revival of production and the restoration of financial and political stability had been achieved. An impressive record which is followed with interest by neighbors not so fortunate or perhaps wise. The International Bank follows with interest too, for recovery and stability are its world-wide objectives.

Now what is this International Bank for Reconstruction and Development? It is in reality a finance company owned by forty-five nations who have subscribed to its capital to the value of some eight billion dollars, each in proportion to its own size and resources. Thus, the Bank represents an instrument owned and backed by the member governments, through which the funds of private investors, with appropriate safeguards for their protection, can be channeled into productive loans to aid in the reconstruction of its war-devastated member countries, and into the development of sound economic projects in the underdeveloped areas.

There has been much misconception that the Bank has eight billion dollars of funds actually at hand out of which to make loans. The facts are these. Only twenty percent of this is paid in or ever will be paid in for the purpose of making loans, and of this paid in capital only about seven hundred twenty-five million is in United States dollars. This is significant because, as I am sure you realize, the present demand is almost entirely for dollars to buy goods primarily in the United States. Furthermore, we can lend our capital only with the consent of the nation whose currency is involved. Today, unfortunately, there are few countries other than the United States in a position to give such

consent. With the exception of the equivalent of two million dollars worth of francs made available out of its subscribed capital by Belgium to cover the purchase of railway equipment by Luxembourg, all of the loans that we have made up to date have been in United States dollars. Within the past few months we have made four such loans, one each to France, Holland, Denmark and Luxembourg, for a total of approximately five hundred million dollars.

In order for the Bank to obtain additional dollars for the purposes of lending we must sell bonds to private investors, and under existing circumstances, predominately to investors in the United States. As you may recall, we sold our first issue of two hundred fifty million dollars of bonds in July.

The bonds of the Bank have behind them, of course, all of our assets, including our loans and the unqualified right to call upon all of the member governments for the unpaid eighty percent capital subscription. We have tried to make it abundantly clear, but it bears repetition, that in the event it is needed to meet the Bank's obligations, the United States Government is committed up to a total of two and a half billion dollars, irrespective of whether the guarantee is met by any other member nation. Thus, up to this amount, the bonds of the Bank are covered by the full faith and credit of the United States. Without in any way inferring that the obligations of the other members will not be effective, we recognize the fact that at the present time the American investor is looking primarily at the protection provided by the obligation of his own government. Based on this obligation, it is now possible for the investor in America to make his funds available for world reconstruction and development with adequate protection.

The Finance Ministers or comparable officials of the forty-five member nations compose the Board of Governors of the Bank. Ordinarily they meet once each year. The thirteen Executive Directors who represent them sit regularly in Washington. The management of the Bank is made up of about three hundred and fifty men and women recruited from nineteen different nations and representing an aggregation of varied talents and experience. We have former central bank executives, finance ministry officials and private bankers; we have economists who come from government service, from business and from the universities. We come from many different backgrounds and speak many different tongues. But our whole staff shares, I am convinced, a deep loyalty to the Bank and to the purposes for which it was formed.

The management of the Bank has been given unstinting support and assistance in all its efforts by the Executive Directors. The Directors have devoted their attention to matters of policy and have relegated administrative matters to the management. The line between policy and administration is sometimes not too easy to draw but suffice it to say the operations of the Bank have been carried out in a spirit of mutual cooperation between the Directors and the staff, which has been most fortunate and helpful. While the debate on many issues of policy is spirited, I think I am correct in saying that on all matters which have come before our board to date we have thus far never had a division in our voting.

On the eleventh of September the Second Annual Report of the Bank was submitted by the President to the Board of Governors assembled in London. In this report an attempt was made to set out an analysis of the problems which beset the European nations in their fight for recovery, and of the fundamental requirements for economic development elsewhere. This is a public document



and may be obtained from the Bank by those who are interested.

The year covered by the report has been an important one in the development of the Bank's policies. It is a year in which we have undertaken our first operations both as borrower and lender and have begun to build up a policy framework which will give form to our future activities.

The core of that structure is our continuing emphasis on the requirement that loans made by the Bank must be made productive and must relate to well designed projects of reconstruction and development.

This implies that the project or program we help to finance must promise an increase in the level of industrial or agricultural output of the borrowing country. It implies that the proceeds of the loan must be utilized only for the productive purposes for which the loan was granted. It implies that the borrowing country itself must take effective steps, where necessary, to remedy any unsound monetary or budgetary practices which would threaten either the productivity of the loan or the prospects of its repayment.

In cooperation with the borrowing countries we have established mechanisms to assure that the proceeds of our loans are not diverted to purposes other than those for which the loan was granted. This includes not only the meticulous checking of documents of purchase and the like, but also checking on the end use within the borrowing country of the goods purchased with money advanced by the Bank. If we lend money for a railroad, or a coal mine, or a power plant, we wish to see that it is used for that purpose so that we may be able to satisfy ourselves that it was so employed.

But our technical investigations and our supervision over the proceeds will prove of little value in assuring that our loans will prove productive unless there is a reliable economic base on which to build.

The responsibility for making the political decisions required for the achievement of the necessary financial reforms rests with the appropriate officials of the individual nations. But we believe that the Bank, precisely because it is a cooperative international agency, will prove increasingly useful as an influence to prompt and perhaps to facilitate the taking of the necessary steps to bring about economic stability.

Let me make clear that when I emphasize the importance that the Bank's loans prove productive, we are thinking of the importance of productive loans from the standpoint of healthy international relations. There are few things which place a greater strain upon friendship between nations than international loans which leave behind merely an obligation to repay, without corresponding benefits to those who must bear the burden of repayment. In such cases, and they have unfortunately not been infrequent, the people of the borrowing country are apt to regard the lender as a foreign ogre of whom the worst can readily be believed. The people of the lending country, on the other hand, when they discover that their own often quite generous instincts are being interpreted as avarice, are apt to become disillusioned and to look with disfavor upon further ventures in the international field. The sum total is impairment rather than improvement of relations within the international community.

In our opinion there are three major impediments to Europe's recovery. They are shortages of food, fuel and manpower. How to overcome these impediments is a question engaging the most earnest consideration of the leaders of the

sixteen European countries and of the United States. While manpower does not seem so obvious a need, there is nevertheless a real shortage of labor in Europe to perform the urgent tasks. This shortage could be met in part by more efficient utilization of labor, by reduction of the number of people unnecessarily employed in governmental and other non-productive pursuits, and by a greater mobility of manpower, in part across national borders. Moves toward the solution of this problem must be made by Europe itself; the problem cannot be solved by loans from America.

The requirements for capital goods to rebuild, modernize and expand productive facilities constitute the field in which the Bank is most concerned. Even for this category of requirements our funds cannot be sufficient to do more than fill the most pressing needs. The estimate in the Paris Report on the Marshall Plan is that three billion one hundred million dollars of industrial capital goods are required over the next four years. We have not yet gone far enough in our studies to justify an opinion on the reliability of this estimate, but we are obviously giving close attention to it.

I think we must all realize that the Paris Report is merely an economic prediction. Covering the period of four years, it is necessarily general and lacking in preciseness. The form, the timing, the conditions, the means of implementation, all must be worked out. In Washington and elsewhere a tremendous amount of work is being done on every aspect of this problem and we in the Bank, in close cooperation with many other agencies, are attempting to develop answers to the many questions.

Turning from the European scene, the Bank has as well an important task to assist in the economic progress of the less well developed areas of the world. The development of these resources is as important for the progress of the more mature nations of the world as it is for raising the standards of life in the

undeveloped areas themselves.

But here again the Bank, or any other outside agency cannot accomplish the most important part of the task. The future of these peoples is chiefly in their own hands. They must maintain and, in many cases achieve, a reasonable degree of political stability. They must put their own financial houses in order. Their people must show the willingness to work, the desire to make the effort for the better life towards which they look.

The Bank wishes to assist to the fullest in this challenging task of development. It is prepared to join in working out sound development plans and to grant loans for carefully selected projects to get the wheels moving. As a catalyst it hopes to stimulate the growth of partnership between the material resources and manpower of the underdeveloped areas, and the money and the technical and management skills of the better developed nations.

It was on this pattern that the United States developed and on this pattern alone, in our opinion, can the present underdeveloped nations assure their economic progress.

I have dwelt at some length on the grimmer aspects of reconstruction in Europe. Let us not overlook the fact, however, that much progress has ~~already~~ been made, due both to the efforts of Europe itself and to foreign grants and credits. Vast areas of arable land have been cleared of mines and wreckage and restored to the plow. Remarkable progress has been made in getting back into operation the heavily damaged railways. Production in many lines--- for example, textiles, rubber goods, cement---has shown great progress. Millions of individuals are toiling under harsh conditions to repair and build up normal life and activities.

However, this record of reconstruction is not uniform. There are examples of countries torn by political dissension, unsound financial management, and weak or impractical leadership, tempting the people to seek salvation through some means easier than the hard work necessary to produce more of the goods which they desperately need.

But staring them and us in the face today are the hard facts that recovery from the devastation of the war can only come by more work, not less, ---by longer hours, not shorter,---by sacrifice, by pulling together. The hopes for an easy way out are dying hard. But there now seems to be emerging a realization on both sides of the Atlantic of the tremendous efforts required; not only of the need for assistance from America, but also that this aid can be useful, and will be forthcoming, but only as those who need the help do their utmost to help themselves.