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Washington, D.C.

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GOULD

FOR THE PRESS



FOR RELEASE
AFTER 1:00 P.M.
THURSDAY,
SEPTEMBER 4, 1947

SUMMARY OF SPEECH
"THE INTERNATIONAL BANK IN OPERATION"
BY DR. JOSEPH S. GOULD
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
BEFORE WILMINGTON ROTARY CLUB
SEPTEMBER 4, 1947

In a speech which outlined the organization, capital structure and purposes of the International Bank for Reconstruction and Development before a luncheon meeting of the Wilmington Rotary Club today, Dr. Joseph S. Gould, Chief of economic staff of the Bank's Research Department, stated that the successful operation of the Bank will mean as much to the citizens of the United States as to the citizens of the borrowing countries. He pointed out that all U. S. citizens have a stake in the Bank because "it is our money that makes up the United States capital subscription to the Bank and it is the money of our private and institutional investors with which the Bank has augmented and will augment its loanable funds".

Dr. Gould stated that as our war-created pent-up demand for most

lines of goods diminishes we will be faced with the problem of keeping our mines, mills and factories active for all of us to have jobs and indicated that this is possible only through the revival of international commerce. It is one of the Bank's purposes to aid in this revival of commerce.

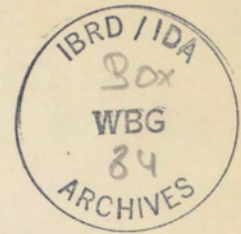
In reviewing the lending policies of the Bank, Dr. Gould stressed the fact that the Bank seeks to promote private international investment and that it will make or guarantee a loan only when it is satisfied that the borrower is unable to obtain the loan otherwise under reasonable conditions. The Bank must also satisfy itself as to the urgency and usefulness of the project or program to be financed; the political stability of the prospective borrower in as much as political considerations affect economic considerations, the degree of self-help which the borrower is prepared to exert, the willingness of the borrower to submit evidence as to the use of the loan proceeds and the apparent ability of the borrower to repay the loan when it falls due.

The Bank has granted four loans aggregating \$497,000,000 to France, the Netherlands, Denmark and Luxembourg and applications upon which no final

action has been taken as yet represent a total of about one and one-half billion dollars. "This should not be taken to mean that the Bank will lend that amount in the near future", Dr. Gould said. "Most of these applications cover reconstruction or development programs extending over a period of years. The Bank necessarily must study, consider and evaluate these programs in their entirety, but it is not required to commit itself either for the full period of the program or for the full amount sought by the prospective borrower".

Dr. Gould ended his talk by stating that, "only by a return to a semblance of economic stability can peace be assured. The Bank is trying to help create the atmosphere in which such stability can be obtained."

Speech Series #26



SPEECH ON INTERNATIONAL BANK
TO BE DELIVERED BEFORE THE LIONS CLUB,
QUEENS VILLAGE, L.I., NOVEMBER 18, 1947
by
JOSEPH S. GOULD

The magnitude and complexity of post-war international economic and financial problems were obvious even while war was still raging and dramatically indicated the need for unprecedented measures of international cooperation. This pressing need prompted the representatives of 45 nations meeting at Bretton Woods, New Hampshire in July, 1944 to create two great new international financial institutions designed to aid in the urgently necessary tasks of economic reconstruction of the war-devastated countries and the restoration of economic equilibrium and financial stability in other countries. The two institutions are the International Monetary Fund, whose objective is the promotion of the free flow of world trade through the establishment of stability in international exchanges, and the International Bank for Reconstruction and Development, whose aim, among other things, is to restore the flow of international private capital investments.

As the Monetary Fund is not the subject of this talk we will pass it by except to mention that it is intended to function primarily in relation to current trade and in the maintenance of international equilibrium and stability of international currency values.

The International Bank, on the other hand, provides long-term financial assistance to its members for the purpose of reconstructing their economies or developing their productive facilities and resources in order to enable them to participate in a restored healthy international trade in goods and services. World shortages can be met best by increased production. The war-devastated countries in particular must be put in a position to resume production as rapidly as possible on a scale large enough for export as well

as domestic consumption. However, the financial needs of the respective countries are so great and the political and economic conditions are so uncertain that in this period private investors hesitate to take the risks involved. It is intended, therefore, that the International Bank will bridge the gap by assisting in the restoration of economies to a point where they will be capable of attracting funds from wholly private investment sources.

The Bank's Charter

The full scope of the Bank is expressed in Article I of the Articles of Agreement as follows:

"(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

"(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

"(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

"(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent

projects, large and small alike, will be dealt with first.

"(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy."

The Bank must be guided in all its decisions by these stated purposes. In a measure they indicate the nature of the responsibilities assumed by the Bank -- responsibilities towards its members as well as towards the private investors on whom it must depend for most of the funds it will lend.

Members

At present there are 45 members, 39 of which were represented at the Bretton Woods Conference. Denmark was admitted in March 1946, while Italy, Turkey, Lebanon and Syria were admitted to membership pursuant to action by the Board of Governors of the Bank at its first annual meeting in Washington in September 1946. Australia became a member in August 1947. Of the 45 nations which were represented at the Bretton Woods conference only four are not now members of the Bank -- Russia, New Zealand, Haiti and Liberia.

Capital

The authorized capital stock of the Bank is \$10 billion, divided into 100,000 shares of the par value of \$100,000 each, which is available for subscription only by members. The total amount of the capital stock which has been subscribed to date is \$8,224,500,000. The amounts of the subscription of the original members were fixed at Bretton Woods. The subscription of Denmark was determined by the Board of Governors at its meeting in Savannah, Georgia in March 1946. The subscriptions of new members are fixed in agreement with such members at the time when their admission for membership is approved.

The subscription to the capital stock is divided into three parts:

1. 2% of the subscription is payable in gold or U.S. dollars.
2. 18% is payable in the currencies of the respective countries -- to be loaned by the Bank only with the consent of the particular members whose currency is used.

3. 80% is subject to call. It is not available for use in lending operations but can be called and used only to meet the Bank's obligations if this is ever necessary.

The Bank as a Lender

In carrying out its purposes the Bank seeks to promote private international investment. It will make or guarantee a loan only when it is satisfied that the borrower is unable otherwise to obtain the loan under conditions which, in the opinion of the Bank, are reasonable for the borrower.

Of course, the Bank must satisfy itself (a) that the purposes of the loan are within the scope of the Bank's operations; (b) that the proceeds of the loan will be used for reconstructing or developing the productive facilities and resources in the territory of the borrower; (c) that the project proposed is technically and economically sound; and (d) that the amount, terms and conditions of the loan are such that there is a reasonable prospect that the loan will be repaid.

Loans are made only to members or under responsibility of a member. Since the member and the Bank have a common interest not only in the success of the loan but also in the success of the Bank there is a closer relationship established than is usually the case between creditor and debtor. There is full opportunity for consultation and exchange of pertinent information on all matters of mutual interest not only at the time the loan is made, but throughout its continued existence. The loan agreements covering the loans

already made by the Bank contain provisions to the effect that the Bank be furnished with full information concerning all goods to be purchased with the proceeds of the loans and their utilization. The Bank will satisfy itself about the end-use to which all purchases are put.

The Bank as a Borrower

As has been stated the Bank depends in the first instance on its own subscribed capital, of which 20% is paid in and 80% subject to call. Of the 20%, only 2% is paid in gold or U.S. dollars, the remaining 18% is paid in the currency of the subscriber and can be used for loans only with its specific consent. At present the demand, as indicated by the loan applications that the Bank has received, is almost exclusively for dollars. This is, of course, fundamentally a matter of production. The demand for U.S. dollars simply indicates that the rest of the world is not yet producing enough to enable it to obtain goods and services through domestic or normal international trade channels and that these are being purchased in large part in the United States because the U.S. is able to supply them. Purchases here require dollars.

Therefore, to turn again to the Bank and its lending capacities from paid-in capital, we see that its loanable funds before any loans were granted consisted of the 20% of the U.S. subscription paid in by that country, plus the 2% in gold or dollars paid in by the other member countries, a total of approximately \$725,000,000.

The Bank has granted four loans aggregating \$497,000,000 to France, the Netherlands, Denmark and Luxembourg. It is obvious, therefore, that to meet the needs of other prospective borrowers the Bank must borrow funds from private investment sources. Incidentally, this is entirely in keeping with the purpose of the Bank to stimulate the flow of private investment funds into international channels and, indeed, the capital structure of the Bank was

designed with this in mind. Before engaging in borrowing activities in a member country, the Bank must obtain the consent of that country.

On July 15 the Bank engaged in its first borrowing operation with great success. It realized \$250,000,000 by the sale of two bond issues comprising \$150,000,000 of 25-year 3 percent bonds due in 1972 and \$100,000,000 of 10-year 2-1/4 percent bonds due in 1957. The issues were sold through more than 1,700 investment dealers to private and institutional investors throughout the United States. The selling group was more than twice as large as that in any comparable marketing operation. The bonds, which are general obligations of the Bank, were substantially over-subscribed.

Use of Available Funds

Applications for loans now in the hands of the Bank and upon which no final action has been taken as yet, request a total of approximately one and one-half billion dollars. This should not be taken to mean that the Bank will lend that amount in the near future. Most of these applications cover reconstruction or development programs extending over a period of years. The Bank necessarily must study, consider and evaluate these programs in their entirety, but it is not required to commit itself either for the full period of the program or for the full amount sought by the prospective borrower. Actually the Bank has evolved a loan procedure which includes the policy of successive advances where lengthy reconstruction or development programs are involved. This has two obvious advantages: (1) it enables the Bank to spread its funds more widely among the member countries, and (2) it permits the Bank to ascertain how a long-range program has progressed during a limited period of time before committing itself for the long-range project in its entirety. In addition, by use of this method of successive advances, funds are not made available more rapidly than the required supplies of goods to be purchased

with the proceeds of the loan.

Other factors which influence loan decisions are the urgency and usefulness of the project or program to be financed; the relative political stability of the prospective borrower in the degree that political considerations affect economic considerations; the degree of self-help which the borrower is prepared to exert; the willingness on the part of the borrower to submit evidence as to the use of the loan proceeds and the apparent ability of the borrower to repay the loan when it falls due.

The Bank and the United States

It is very obvious that the loaning activities of the Bank will have a beneficial effect upon the recipients of its loans, but you may well ask what benefits derive to the citizens of the United States. All of us, as citizens, have a stake in the Bank, for it is, in the final analysis, our money that makes up the United States capital subscription to the Bank and it is the money of our private and institutional investors with which the Bank has augmented and will augment its loanable funds.

The crux of the situation has been expressed in nine words by John J. McCloy, President of the Bank, when he said "The World cannot exist half rubble and half sky-scraper". In other words, prosperity cannot be maintained in isolation. We all know the tremendous increase of production facilities which attended the war here at home. Some estimate the increase at as much as 50 percent.

As our war-created pent-up domestic demand for most lines of goods diminishes we will be faced with the problem of keeping our mines, mills and factories active for all of us to have jobs. Only by the revival of international commerce is this possible. It has been estimated that right now about one dollar in every fifteen of the national income comes from foreign buying.

This ratio must be maintained if we are to have our present degree of prosperity continue for long.

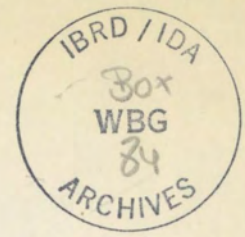
The Bank and International Trade

Discussion is now in progress in relation to the so-called Marshall Plan for European reconstruction. Undoubtedly the results of these deliberations will have a great bearing on the role that the Bank will play in European restoration, both physical and economic. But whatever that role may be, the Bank through its reconstruction or development loans cannot help but be of benefit in increasing world commerce and international trade. Like the ripples started by the throwing of a stone into a pool which circle out until they lap the farthest shores, the economic consequences of the Bank's loans will extend from country to country until the cumulative effect is many times greater than the original outlay.

Only by a return to a semblance of economic stability can peace be assured. The Bank is trying to help create this atmosphere in which such stability can be attained.

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Speech Series #29



ADDRESS TO BE DELIVERED BEFORE
THE ADVERTISING CLUB OF BALTIMORE
BALTIMORE, MARYLAND
FEBRUARY 11, 1948
BY
JOSEPH S. GOULD
CHIEF, ECONOMIC RESOURCES AND MARKETS STAFF
RESEARCH DEPARTMENT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The magnitude and complexity of post-war international economic and financial problems were obvious even while war was still raging and dramatically indicated the need for unprecedented measures of international cooperation. This pressing need prompted the representatives of 44 nations meeting at Bretton Woods, New Hampshire in July, 1944 to create two great new international financial institutions designed to aid in the urgently necessary tasks of economic reconstruction of the war-devastated countries and the restoration of economic equilibrium and financial stability in other countries. The two institutions are the International Monetary Fund, whose objective is the promotion of the free flow of world trade through the establishment of stability in international exchanges, and the International Bank for Reconstruction and Development, whose aim, among other things, is to restore the flow of international private capital investments.

As the Monetary Fund is not the subject of this talk we will pass it by except to mention that it is intended to function primarily in relation to current trade and in the maintenance of international equilibrium and stability of international currency values.

The International Bank, on the other hand, provides long-term financial assistance to its members for the purpose of reconstructing their economies or developing their productive facilities and resources in order to enable them to participate in a restored healthy international trade in goods and services. World shortages can be met best by increased production. The war-devastated countries in particular must be put in a position to resume production as rapidly as possible on a scale large enough for export as well as domestic consumption. However, the financial needs of the respective countries are so great and the political and economic conditions are so un-

certain that in this period private investors hesitate to take the risks involved. It is intended, therefore, that the International Bank will bridge the gap by assisting in the restoration of economies to a point where they will be capable of attracting funds from wholly private investment sources.

The Bank's Charter

The full scope of the Bank is expressed in Article I of the Articles of Agreement as follows:

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"(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

"(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

"(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

"(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy."

The Bank must be guided in all its decisions by these stated purposes. In a measure they indicate the nature of the responsibilities assumed by the Bank -- responsibilities towards its members as well as towards the private investors on whom it must depend for most of the funds it will lend.

Members

At present there are 46 members, 40 of which were represented at the Bretton Woods Conference. Denmark was admitted in March 1946, while Italy, Turkey, Lebanon and Syria were admitted to membership pursuant to action by the Board of Governors of the Bank at its first annual meeting in Washington in September 1946. Australia became a member in August 1947, and Finland in January 1948. Of the 44 nations which were represented at the Bretton Woods conference only four are not now members of the Bank -- Russia, New Zealand, Haiti and Liberia.

Capital

The authorized capital stock of the Bank is \$10 billion, divided into 100,000 shares of the par value of \$100,000 each, which is available for subscription only by members. The total amount of the capital stock which has been subscribed to date is \$8,263,100,000. The amounts of the subscription of the original members were fixed at Bretton Woods. The subscription of Denmark was determined by the Board of Governors at its meeting in Savannah, Georgia in March 1946. The subscriptions of new members are fixed in agreement with such members at the time when their admission for membership is approved.

The subscription to the capital stock is divided into three parts:

1. 2% of the subscription is payable in gold or U.S. dollars.

(\$165,262,000.)

2. 18% is payable in the currencies of the respective countries (\$1,487,358,000.) -- to be loaned by the Bank only with the consent of the particular members whose currency is used.

3. 80% is subject to call. (\$6,610,480,000.) It is not available for use in lending operations but can be called and used only to meet the Bank's obligations if this is ever necessary.

The Bank as a Lender

In carrying out its purposes the Bank seeks to promote private international investment. It will make or guarantee a loan only when it is satisfied that the borrower is unable otherwise to obtain the loan under conditions which, in the opinion of the Bank, are reasonable for the borrower.

Of course, the Bank must satisfy itself (a) that the purposes of the loan are within the scope of the Bank's operations; (b) that the proceeds of the loan will be used for reconstructing or developing the productive facilities and resources in the territory of the borrower; (c) that the project proposed is technically and economically sound; and (d) that the amount, terms and conditions of the loan are such that there is a reasonable prospect that the loan will be repaid.

Loans are made only to members or under responsibility of a member. Since the member and the Bank have a common interest not only in the success of the loan but also in the success of the Bank there is a closer relationship established than is usually the case between creditor and debtor. There is full opportunity for consultation and exchange of pertinent information on all matters of mutual interest not only at the time the loan is made, but

throughout its continued existence. The loan agreements covering the loans already made by the Bank contain provisions to the effect that the Bank be furnished with full information concerning all goods to be purchased with the proceeds of the loans and their utilization. The Bank will satisfy itself about the end-use to which all purchases are put.

The Bank as a Borrower

As has been stated the Bank depends in the first instance on its own subscribed capital, of which 20% is paid in and 80% subject to call. Of the 20%, only 2% is paid in gold or U.S. dollars, the remaining 18% is paid in the currency of the subscriber and can be used for loans only with its specific consent. At present the demand, as indicated by the loan applications that the Bank has received, is almost exclusively for dollars. This is, of course, fundamentally a matter of production. The demand for U.S. dollars simply indicates that the rest of the world is not yet producing enough to enable it to obtain goods and services through domestic or normal international trade channels and that these are being purchased in large part in the United States because the U.S. is able to supply them. Purchases here require dollars.

Therefore, to turn again to the Bank and its lending capacities from paid-in capital, we see that its loanable funds in U.S. dollars before any loans were granted consisted of the 20% of the U.S. subscription paid in by that country, plus the 2% in gold or dollars paid in by the other member countries, a total of \$731,847,000. In addition, Belgium has made an equivalent of \$2 million in Belgian francs available for lending.

The Bank has granted four loans aggregating \$497,000,000 to France, the Netherlands, Denmark and Luxembourg. It is obvious, therefore, that to meet the needs of other prospective borrowers the Bank must borrow funds from private investment sources. Incidentally, this is entirely in keeping with the purpose of the Bank to stimulate the flow of private investment funds into international channels and, indeed, the capital structure of the Bank was

the purpose of the Bank to stimulate the flow of private investment funds into international channels and, indeed, the capital structure of the Bank was designed with this in mind. Before engaging in borrowing activities in a member country, the Bank must obtain the consent of that country.

On July 15 the Bank engaged in its first borrowing operation with great success. It realized \$250,000,000 by the sale of two bond issues comprising \$150,000,000 of 25-year 3 percent bonds due in 1972 and \$100,000,000 of 10-year 2-1/4 percent bonds due in 1957. The issues were sold through more than 1,700 investment dealers to private and institutional investors throughout the United States. The selling group was more than twice as large as that in any comparable marketing operation. The \$250,000,000 from sale of bonds, added to the approximately \$730,000,000 loanable funds from the Bank's capital stock, minus the \$497,000,000 in loans already made, leaves a current balance of approximately \$480,000,000 available for further loans.

Use of Available Funds

Applications for loans now in the hands of the Bank and upon which no final action has been taken as yet, request a total of approximately one and one-half billion dollars. This should not be taken to mean that the Bank will lend that amount in the near future. Most of these applications cover reconstruction or development programs extending over a period of years. The Bank necessarily must study, consider and evaluate these programs in their entirety, but it is not required to commit itself either for the full period of the program or for the full amount sought by the prospective borrower. Actually the Bank has evolved a loan procedure which includes the policy of successive advances where lengthy reconstruction or development programs are involved. This has two obvious advantages: (1) it enables the Bank to spread its funds more widely among the member countries; and (2) it permits the Bank

to ascertain how a long-range program has progressed during a limited period of time before committing itself for the long-range project in its entirety. In addition, by use of this method of successive advances, funds are not made available more rapidly than the required supplies of goods to be purchased with the proceeds of the loan.

Other factors which influence loan decisions are the urgency and usefulness of the project or program to be financed; the relative political stability of the prospective borrower in the degree that political considerations affect economic considerations; the degree of self-help which the borrower is prepared to exert; the willingness on the part of the borrower to submit evidence as to the use of the loan proceeds and the apparent ability of the borrower to repay the loan when it falls due.

The Bank and the United States

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The crux of the situation has been expressed in nine words by John J. McCloy, President of the Bank, when he said "The World cannot exist half rubble and half sky-scraper". In other words, prosperity cannot be maintained in isolation. We all know the tremendous increase of production facilities which attended the war here at home. Some estimate the increase at as much as 50 percent.

As our war-created pent-up domestic demand for most lines of goods diminishes we will be faced with the problem of keeping our mines, mills and factories active for all of us to have jobs. Only by the revival of international commerce is this possible. It has been estimated that right now about one dollar in every fifteen of the national income comes from foreign buying. This ratio must be maintained if we are to have our present degree of prosperity continue for long.

The Bank and International Trade

Discussion is now in progress in relation to the Marshall Plan for European reconstruction. Undoubtedly the results of these deliberations will have a great bearing on the role that the Bank will play in European restoration, both physical and economic. In this connection, it is pertinent to refer to Mr. John J. McCloy's recent statement that:

"As for the Bank's role in the provision of new financing for Europe, I can only say that we intend to continue to employ our available capital and our credit for the purposes for which we were organized, and that we stand ready and willing to assist and consult with whatever agencies may be established to implement the program. Our role in Europe may, for the next few years, be somewhat different from what was envisaged at Bretton Woods; certainly our financial participation will be dwarfed by that proposed for the United States. But I do not hesitate to say that we welcome the proposed program, both because we regard it as necessary for European recovery and because it will enable the Bank to concentrate on the financing of specific productive projects and will relieve it from the pressure of making loans which in effect are intended primarily to meet balance of payments deficits".

But whatever that role may be, the Bank through its reconstruction or development loans cannot help but be of benefit in increasing world commerce and international trade. Like the ripples started by the throwing of a stone into a pool which circle out until they lap the farthest shores, the economic consequences of the Bank's loans will extend from country to country until the cumulative effect is many times greater than the original outlay.

Only by a return to a semblance of economic stability can peace be assured. The Bank is trying to help create this atmosphere in which such stability can be attained.