

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Walton, E. M. - Articles and Speeches (1948) - 1v

Folder ID: 1654785

Fonds: Records of Office of External Affairs (WB IBRD/IDA EXT)

Digitized: February 28, 2014

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

Walton, E. M. - ARTICLES and speeches (1948)



DECLASSIFIED
WBG Archives

The World Bank Group
Archives **1654785**
A1992-007 Other #: 19 212064B
Walton, E. M. - Articles and Speeches (1948) - 1v

Job # 4054
1st run - 75 copies
200 copies

Speech Series #35

April 7, 1948

SPEECH PREPARED FOR MISS E. M. WALTON
FOR JOHANNESBURG INSTITUTE OF BANKERS - APRIL 12

I feel it is a great honor, as a South African and a staff member of the International Bank for Reconstruction and Development, to be the first person to represent the Bank before a South African audience. I cannot help feeling that the purposes for which the Bank was established are at least as important to this country as to any other, for our welfare is inescapably dependent on the recovery and healthy growth of the world economy.

The fundamental economic problem of the world today is to expand production - and to assure that the benefits of increased production are widely extended through free economic intercourse among nations. Many areas of the world are in need of food, essential raw materials and capital goods with which to restore or develop productive capacity. But economic health does not involve merely the restoration of physical equipment, of which there is still a surprisingly large amount despite the ravages of war. It involves also strengthening the foundations of international confidence by sound monetary practices, by establishing the freedom of goods to cross frontiers, and by maintaining adequate levels of trade.

The purpose of the International Bank is to contribute to the achievement of these goals. It aims to help raise the levels of world production as greatly and as rapidly as possible. To aid its member nations in attaining and maintaining

sound and balanced national economies, wherein exports of goods and services can eventually pay for essential imports. These are the basic prerequisites to a healthy expansion of international trade.

The founders of the International Bank when they drew up its Articles of Agreement in Bretton Woods, New Hampshire, in 1944, recognized that at the conclusion of the war the need for international financing would be so large, and the risks so great, that private capital would not be available in the large amounts required without some form of government guarantee. The Bank's purposes and Articles of Agreement were formulated in the light of these considerations.

The Bank is, I believe, a unique organization in several ways. It is an international institution, owned by the 46 member governments. Unlike some other international bodies, however, it has the power to take action and not merely to make recommendations. It has funds of its own to lend, and authority to borrow more. Its staff is international, with members at the moment from 23 different countries, but in their work they owe no responsibility to their respective governments - only to the Bank itself. A Board of 14 Executive Directors, each representing one or more of the member governments, sets policies and passes on major decisions, but the initiative in all operations is taken by the Bank's international staff. Decisions of the Board are made by majority vote, each director having a different number of votes depending on the amount subscribed to the Bank's capital by the nation or nations he represents. There has been an extraordinary unity of viewpoint on the major questions of policy facing the Bank, and the directors

of all nationalities have given fine support to the staff.

Another unique aspect of the Bank is the source of its finances. Although it is an intergovernmental institution it will obtain most of its loanable resources from private sources by selling Bank bonds. To be more precise, the system works this way: All the member governments have subscribed to the Bank's capital in varying amounts according to their means. The total of these subscriptions in all currencies is equivalent to about \$8 billion, of which South Africa's share is \$100 million. But only 20% of each country's subscription had to be paid in, and of this amount, one-tenth, or 2% of the total, was payable in gold or dollars. The rest of the 20% paid-in capital is in the various local currencies and can be used for lending only with the consent of the country concerned. The capital funds which are available for lending up to the present time are confined to the 2% paid by all members in gold or dollars, plus the 18% paid in dollars by the United States, plus the equivalent of \$2 million in Belgian francs which Belgium has made available for lending -- a total of about \$730 million. The remaining 80% of the capital subscription provides a guarantee fund for private buyers of the Bank's bonds and is subject to call only if needed to pay obligations. By this kind of arrangement it is possible to channel private capital into international investment on a broad scale and a sound basis.

The bonds which the International Bank sells to private investors have behind them the following assets: First, the Bank's own portfolio of loans, which are made only after thorough investigation and only for productive purposes; second, the Bank's liquid assets including a special reserve built up from

a commission charge which, in addition to interest, the Bank charges on all of its loans; and third, the entire 80% of the Bank's uncalled capital stock which can be used only if and when needed to meet the Bank's obligations. This uncalled capital stock amounts to approximately \$6 billion \$600 million.

At the same time the Bank's Articles of Agreement and its necessary reliance on private investors for most of its loanable resources prevents it from straying from economic realities. This rules out loans for relief or political purposes and means that the Bank's emphasis must be on loans which are productive in themselves and provide a reasonable prospect of repayment.

The necessity for selling bonds to obtain funds for lending also means, however, that the Bank has not, and cannot speedily acquire, huge sums to lend for reconstruction and development purposes. So far it has sold \$250 million of its bonds in the United States investment market. Some of these bonds were purchased by investors in other countries through dealers in the United States. The Bank expects in due course to borrow sizeable additional sums. The amount and timing of additional borrowing by the Bank will depend in part upon the possibility of widening the market for its bonds. This is a matter of extending the knowledge and confidence of investors regarding the Bank. It is hoped also that it may soon be possible to sell Bank bonds on the markets of other countries besides the United States.

There is one special source of strength deriving from the Bank's international character. It is not an arm of any government, but is responsible ultimately to all 46. Its

loans are made, therefore, on an objective, non-political basis, taking into account not only the soundness of the particular project it is asked to finance but the effect of the loan on the borrowing country's economy as a whole and relevant international factors as well.

At the same time the Bank has greater prestige and authority than any private institution could have; since its interests are identical with those of its members the latter have confidence in its objectivity. The Bank is therefore in a strong position to insist on the conditions which are necessary not only to safeguard its loans, but also to make them effective - conditions which might be resisted as an invasion of sovereignty if they were imposed by another government or by private investors.

One of the Bank's major purposes, in fact, is to assist its members, particularly those which are economically underdeveloped, to establish internal conditions which will promote stability and healthy growth. It tries to help them to lay their economic plans realistically and to make the best use of both domestic resources and foreign aid in carrying out those plans. It has indicated its readiness to help its members obtain necessary technical aid, either by assigning experts from the Bank's own staff or by assisting in the selection of competent private advisers.

With this general background, I should like to discuss in a little more detail the operations of the Bank over the past two years. Its official birthday was December 27, 1945, but it did not formally begin operations until about six months later. The first year was a period of planning, of developing policies

and procedures and of building an efficient organization. During 1947 it began lending operations on a substantial scale.

Necessarily the Bank gave initial priority to the needs of European reconstruction. That task was most urgent not only from the standpoint of Europe itself but also from that of the rest of the world. Europe had a productive plant, a reservoir of trained workers, the necessary technical and commercial experience already in being. To put them to work and keep them at work by furnishing the necessary fuel, raw materials and replacement equipment was clearly the quickest and most economical way to raise the level of world output.

The situation, too, was an emergency one. The European nations, as a result of hard work, considerable sacrifice and substantial foreign aid, had made great progress in recovery from the devastating effects of the war. They still had not reached the point, however, where they could continue to progress through their own unaided efforts: they needed additional foreign assistance if they were not to slip back into collapse and disintegration. The Bank considered, and its international Board of Directors was in unanimous agreement, that to prevent such a regression was a matter of prime importance to all the members of the Bank. For without a revival of European production, the world's requirements for manufactured goods could not be fully supplied: without the recovery of Europe as a market, the export trade of Africa, Asia and America would be disastrously curtailed; without the restoration of stable and convertible European currencies, other countries would find it increasingly hard to finance their trade; and without all these things, realization of the hopes and plans for early

economic stability and the rapid, healthy development of the world's productive potentialities would be immeasurably more difficult and long delayed.

In 1947 the Bank made four reconstruction loans to European nations - \$250 million to France, \$195 million to the Netherlands, \$40 million to Denmark, and \$12 million to Luxembourg - a total of \$497 million.

All of these loans are earmarked for definite productive purposes, and this constitutes a new and healthy departure in the history of international financing. The four loan agreements provide for the purchase of specific commodities which the borrowing countries need to get production going and to contribute to the reconstruction of Europe as a whole - such essentials as industrial and agricultural machinery, equipment needed to strengthen transportation systems, and basic raw materials.

Careful on-the-spot investigations of the productive prospects of each specific project preceded the granting of each loan. In addition, arrangements have been made with the borrowing countries whereby Bank observers assure that the goods purchased are used only as specified in the loan agreements; and the borrowing countries provide the Bank regularly with full information on the loan's contribution to their whole reconstruction effort. In fact the Bank system of supervision over the end use of its loans is a major contribution to sound international financing--and a technique which the United States may borrow for E.R.P.

An example of the effect of the Bank's lending operations may be seen in the case of the French loan. France has purchased such raw materials as coal and cotton, and capital

goods such as steel mill equipment, locomotives, cranes, and drilling and automotive machinery. Bank observers on the spot have found that the use of these commodities has contributed materially to the restoration of French industry. Production figures in recent months have been encouraging; in some industries they have surpassed prewar levels.

It was clear, however, that while aid from the Bank might make a vital contribution to European recovery during the past critical year, the Bank does not have the resources to do the entire job itself. Furthermore, it has obligations to other countries, in Latin America, Africa and Asia, which need financial assistance. The European Recovery Program, which was initiated by Secretary of State Marshall last June and was just approved by the United States Congress, provides a comprehensive program of aid on a scale much larger than the Bank was able to undertake.

The Bank is not directly involved in that Plan. Various accounts of the Plan have referred to the possibility that the Bank may finance a part of Western European requirements for capital equipment. That would not require that the Bank step out of its established role, although, of course, the extent to which the Bank can finance such requirements will depend on the soundness of the projects and its ability to borrow the necessary funds. It is clear that a well-integrated European Recovery Program will in no way conflict with the operations of the International Bank; on the contrary, the two are complementary.

In its concern with European reconstruction, however, the Bank has not lost sight of the other, and equally important,

purpose which will motivate its long-range lending operations - namely, the development of untapped resources in the less developed areas of the world. The Bank's first "development loan" - a credit of \$16 million to Chile to finance power and agricultural development projects - was granted only a few weeks ago. Others are under consideration, and it may be expected that in the long run loans of this kind will assume a major role in the Bank's operations.

Development of the productive facilities of less developed regions presents both a challenge and an opportunity. The magnitude of the field is such that the Bank cannot undertake the whole job alone, or even the larger part of it. The principal contribution must come, of course, from capital resources right within the country concerned; and one of the Bank's main aims is to have underdeveloped countries make effective use of local funds and increase the rate of savings available for productive uses. But even for international financing the Bank is no substitute for private capital. On the contrary, its purpose is to blaze the trail for private financing. By reducing some of the risks which now inhibit international lending and investment, by financing projects which will help to break economic bottlenecks at strategic points, it is hoped to start private capital flowing in amounts far greater than the Bank alone could hope to provide.

In conclusion I should like to summarize my conception of the role and the importance of the Bank in a very few sentences.

It is an international cooperative institution, which is owned by all its members and which has no interests apart from

those of its members. It provides a means by which all of the 46 governments - and any others that may join - may work together, effectively and harmoniously, in the common task of financing reconstruction, stabilization and the expansion of world economy.

Because it is international in its scope, and because it has resources larger than most private institutions, the Bank is able to look at the world's problems and possibilities from a more comprehensive longer-range perspective than is usually possible. But its outlook and policies are not utopian; they are realistic in the broadest sense. The Bank is not primarily concerned to turn a quick profit, but it does want and expect to operate in the black. As of February 28 of this year, in fact, it was currently receiving income substantially in excess of outgo, and had made enough since last June to wipe out all the initial operating deficit.

The problems of restoring and maintaining a prosperous and stable world economy are immense, but I believe the Bank can make a vitally important contribution to that end and thus may help to solidify the economic foundations of peace.