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May I begin by saying how grateful I am for your kind invitation to me to come and speak to you as a representative of the International Bank and as a representative of Canada. It is almost two years since I was first sent down to Washington by the Government of Canada to represent my country on the Board of Executive Directors of the International Bank. At that time the Bank consisted of little more than a President, a Board of Directors, recently elected by the member governments, a staff of perhaps a few dozen people, and some bold aspirations for the future, as written down in the Articles of Agreement at Bretton Woods in 1944. In the spring of 1946 the Bank had not yet begun to call upon the member countries to pay their capital subscriptions; no loans had been made and no plans had yet been drawn up for recourse to the investment market of the United States for additional capital funds.

During the two years that have elapsed since that time the Bank has become a firmly established international institution with a membership of 46 nations. While its lending operations have not been spectacular the Bank has already made six loans applicable to five countries amounting in the aggregate to more than $500 million and two or three additional loan agreements are currently nearing completion. So far as its borrowing operations are concerned the Bank was able to launch its first bond issue last July in New York with a very considerable degree of success and its bonds have already become well seasoned in the security markets of this country. A staff of some four hundred persons is now engaged in investigating the possibilities of additional investment projects in perhaps a dozen different countries around the world, in supervising the operations of existing loan agreements, in handling the inflow of interest payments or in servicing the Bank's own bonds. In short, the International Bank is now a strongly established and going concern. I would like to use the time at my disposal to point out some of the more significant features of the Bank's operations.

I need hardly say that the International Bank for Reconstruction and Development is a somewhat unique institution in the field of international finance. As conceived by the architects of the Bank at Bretton Woods in 1944, the purposes of this international agency are to assist in the reconstruction and development of member countries by facilitating the investment of capital for productive purposes and to promote private foreign investment. Behind these specific objectives lies the more ultimate goal, which is the promotion of a balanced growth of international trade through greater productivity, leading to an increase in standards of living in every country affected by trade.

The encouragement of international lending is then the primary function of the Bank. And in this respect two features must be emphasized. In the first place the Bank exists to make productive loans. It is not in business to grant loans for relief purposes, or to grant loans merely to offset an otherwise unmanageable deficit in a country's balance of international payments. Its loans must be such as to contribute to greater productivity and, in consequence, to create their own means of repayment.

In the second place the Bank's lending operations are not intended to replace private international lending with governmental lending, but to foster and facilitate private lending.

This can be done by a device which is virtually unique and hitherto untried in the history of international finance. In simple terms the Bank operates upon the principle that the major risks involved in international lending shall be carried, not by the private investors who are to provide the bulk of the money required, but by the member governments who are the stockholders of the Bank and who have obligated themselves to protect the position of the bondholders of the Bank.

It was to be expected that in the post-war world many countries would have a great need for external capital assistance for reconstruction or economic development. It was recognized, however, that the years immediately following the war would be marked by a great deal of political and economic uncertainty in which private investors would be reluctant to risk their money. The capital structure of the International Bank is therefore contrived in such a way as to create opportunities for private international lending while relieving private investors of the risks involved. The point I have just made -- that the International Bank is designed to promote private international investment rather than to displace it -- may seem paradoxical to some people, who think of the Bank solely as an international agency, but it is none the less true, and will become more and more apparent as the Bank continues to grow. Indeed, if the Bank is to succeed it must obtain the support of private and institutional investors in all those countries which are in a position to support an outward flow of capital.

The unique feature of the Bank lies in the governmental guarantees which lie back of the Bank's own borrowing operations. Let me explain this point. As most people know, the subscribed capital of the International Bank is roughly $8 billion. Now $8 billion is a lot of money measured by any standard and would be sufficient to finance an enormous amount of development and reconstruction in the world if such sums were available to the Bank. In point f fact, of course, the actual capital subscription of the member countries paid in to the Bank is only 20 percent of their total capital liabilities. The obligation to pay the remaining 80 percent is held in abeyance, being available only in the case of a threatened default on the Bank's own obligations. In other words the unpaid subscriptions, amounting to 80 percent of the capital stock of the Bank, is in the nature of a joint and several guarantee made by the member governments so to strengthen the security of the private investor from whom the Bank expects to get the larger part of its loanable funds.

The monies paid into the Bank by the member governments, while substantial, are clearly insufficient to meet the capital requirements of the world. The paid-in capital (i.e. the 20 percent subscription), amounting -- as I have already mentioned -- to some $1,650 millions consists in part of the currencies of the various member countries, and in part of the U.S. dollars, the latter consisting mainly of the subscription of the United States Government. Since the potential borrowers of the Bank are more anxious to borrow U.S. dollars than any other currency -- a reflection of the demand for U.S. goods -- the $730 million of subscribed capital in the form of U.S. dollars may be regarded as the maximum size of the capital stock originally and immediately available for lending in U.S. funds. Beyond these two amounts the Bank counts on obtaining funds for lending purposes by recourse to the private investment markets. As mentioned earlier, the first borrowing effort was made last July when the Bank floated two bond issues, totalling \$250 million, by public flotation on the U.S. market. One issue consisted of \$100 million, 2¼ percent, 10-year obligations and the other issue was for \$150 million, 3 percent, 25-year obligations. I may add that these funds, together with the subscription capital paid in by member governments in U.S. dollars and gold, are believed to be sufficient to meet the needs of the Bank for the time being, and no further appeal to the market is contemplated at the moment.

I shall have something to say later about the possibility of raising funds in other markets besides that of the United States. However, it is worth mentioning that the first issue of a foreign currency security was made by the Bank only a few weeks ago when bonds amounting to roughly \$4 million in Swiss francs maturing in 1953-4 were sold by the International Bank to the Bank for International Settlements in Basle, Switzerland. This issue was made in order to obtain Swiss francs to be loaned to the Netherlands as part of the original \$195 million loan made by the International Bank to the Netherlands last year. While the transaction is a comparatively small one it is significant as a beginning and indicates the direction in which the Bank expects to move as opportunities for widening its activities arise.

I turn now to consider certain features of the Bank's international lending programme. Up to the present time loans have been made to France, Netherlands, Denmark, Luxembourg and Chile, amounting in all to \$513 million. The actual amounts disbursed on these loans as of March 31, 1948, came to a little more than \$400 million. The loan to France made last May is for \$250 million and was made to the Credit National, a semi-public organization created for the purpose of assisting in financing the reconstruction and development of the French economy. In point of fact this loan enabled France to finance the purchase of various types of capital equipment and essential raw materials, covering equipment for the steel industry, and ships as well as oil, coal, cotton and steel.

In August of last year a loan of \$195 million was granted to the Netherlands to be used for the reconstruction of productive facilities in that country. In the same month a loan of \$40 million was made to Denmark to hasten Denmark's economic recovery. That particular loan made possible the financing of essential import goods and raw materials including agricultural and textile machinery, machine tools, trucks and steel products. About the same time a loan of \$12 million was made to the Grand-Duchy of Luxembourg to finance the purchase of equipment for the steel industry and rolling stock for their railways. Finally, in March of this year, two loans, aggregating \$16 million were made by the Bank to Chilean enterprises. The first is a loan of \$13½ million for hydro-electric development, made jointly to a public corporation in Chile (the Fomento Corporation) which is an instrument of the Chilean Government created to promote economic development, and to a subsidiary of the Fomento Corporation engaged in the production and distribution of electricity. This loan was made to finance the purchase of equipment and supplies for the development of electrical power and water facilities in Chile. The second Chilean loan, amounting to \$2½ million, was also made to the Fomento Corporation to finance the purchase of agricultural machinery in this country in order to increase the productivity of Chilean agriculture. Like all Bank loans these were both directly guaranteed by the government of the member nation concerned.

So far as reconstruction in Western Europe is concerned, all the evidence supports the conclusion that steady progress is being made. For example, Western European industrial production in 1947 was about 10 percent greater than in 1946. In some countries, production has already reached or surpassed the pre-war level, as in the United Kingdom, France, Belgium, Norway and Denmark. Some idea of the great efforts being made by Europe itself to reconstruct and modernize its industry is indicated by the fact that in most countries from 12 to 15 percent of the total national output of goods and services is being devoted to capital investment. Considerable progress is also being made in expanding exports. In 1947 the volume of exports of the Western European countries affected by the destruction of war rose by 30 percent over the level of the previous year. A large scale investment programme and an increase in exports will ultimately both help to make Europe independent of outside aid. This can only be achieved today through severe restraints on consumption and with the help of external financing.

At the moment the Bank has before it applications for loans from possibly a dozen or more different member countries, some from governmental agencies and some private in character. Missions have been sent to some of the countries concerned to investigate the situation on-the-spot; engineers and other technical experts are making studies, and in the case of two or three applications, negotiations, seem to be nearing completion. It should also be pointed out that the Articles of Agreement permit the Bank to give its guarantee to international lending transactions of a private character, a development which the Directors and Management of the Bank are anxious to foster. Indeed, the Bank is now engaged in certain loan negotiations relating to which there is good reason to believe that part or all of the securities given by the borrower can be re-sold directly to private institutional investors. A development of this kind would bear out the intention of the International Bank to foster the revival of private international investment, besides enlarging the scope of the Bank's operations.

I would like to return for a moment to deal with several points which arises in connection with the direct lending operations of the Bank. In accordance with its Articles of Agreement the Bank has to ensure that the loans it makes are needed and used for productive purposes. This means that the Bank's loans are not intended to be general purpose loans of the kind typical of international lending after the last war. On the contrary the Bank's loans are made for specific projects or are made for the purchase of materials and equipment designed to fit into a well conceived national plan of reconstruction. Consequently, before entering into a loan contract the Bank makes a detailed study and investigation of the project or projects, and of the general economic situation of the country concerned, to satisfy itself of the practicability of the borrowing operation. Moreover, during negotiations between the borrower and the Bank, complete understanding is reached as to materials, supplies and equipment which the borrower intends to purchase with the assistance of Bank monies. The loan agreement involves therefore, a list showing categories and amounts of specific conditions which the Bank will finance. I think it will be admitted that a thorough appraisal of the plans and projects involved in a foreign loan is something which was not ordinarily undertaken under the system of private international lending which prevailed after the first world war. Indeed, the close scrutiny of all the circumstances could hardly be made except by an international institution representative of all governments.

The responsibility of the Bank does not come to an end with the decision to grant a loan, since the International Bank also follows through the expenditures made with borrowed funds. It satisfies itself that the goods are purchased in accordance with the terms of the loan agreement and that the materials and equipment are used for the purposes originally agreed upon. These safeguards are achieved by reimbursing the borrower for expenditures made for goods on the list or by giving advances to the borrower to enable it to meet its obligation in connection with the purchase of specific goods. If reimbursement is involved the borrower submits to the Bank the appropriate documents covering payment and shipment of the goods. A small staff located in the borrowing country is able to trace the goods through to their final use in the borrower's reconstruction or development programme. In other words collaboration and cooperation between the Bank and the borrower is supervised throughout the period when the loan monies are being disbursed. Indeed, it is expected that this collaboration will continue throughout the life of the loan itself. I believe that this kind of arrangement provides every reasonable guarantee that can be obtained that Bank loans are made only for productive purposes and that the most effective and economic use is made of the Bank's resources.

At this point something should be said about the relationship between the objectives and policies of the Bank and those of the Marshall Plan. It goes without saying that, as the events of the past two years have demonstrated, the reconstruction needs of Europe and the Far East have proven to be far greater than was anticipated in 1945. Progress was hampered by the unfortunate effects of the severe winter of 1946-47, by the continued shortage of coal and to transportation and other bottlenecks to production. Political uncertainties and difficulties have also operated to retard the pace of recovery. The result is that even today many countries still find it necessary to import abnormally high quantities of food, fuel and raw materials, not to mention supplies and equipment needed to rebuild the capital structure of the economy. These imports are available, in large measure, only in the United States and the dollar reserves of these countries have been severely reduced already. In many cases the need is so great that grants rather than loans are more appropriate. In this situation the United States through the Congress has decided to come to the aid of Europe with its generous and inspired Marshall Plan. The European Recovery Plan is generous because, as all must recognize, it represents a subtraction from the supply of goods and services available for consumption and investment in the United States. The effect of the Plan will be to require a higher rate of taxation or of saving in this country than would be necessary if the Plan did not exist. The particular wisdom behind the Plan lies in the manner in which it is being used to promote a greater degree of economic collaboration between the countries of Western Europe.

The grants and loans to be made to European countries under the ERP will enable these countries to sustain a level of consumption which was already in jeopardy and will enable them to continue their efforts to expand their productive capacity. In brief, the ERP will create a foundation upon which an effective reconstruction effort can be undertaken to the point where, if all goes well, the dependence of Western Europe upon outside aid should disappear within the next four years. This all means that the biggest part of the job over the next few years, so far as the external financing of Europe is concerned, will be done through the ERP, assisted in some measure by credits from other countries of the Western Hemisphere, along with the self-help involved in the proposed plans for inter-European cooperation. But it also suggests that the prospects for a programme of international lending by the International Bank in Western Europe will be immeasurably improved by the adoption of ERP. Perhaps the question can be put in another way. The purpose of the Marshall Plan is to finance the balance of payments deficits of Europe with the Western Hemisphere. These deficits are based upon a relatively spartan level of consumption and a level of investment not much above the margin required to keep the economies of Europe moving on an even keel. The financing of these deficits is not and cannot be carried out strictly as a banking operation. As such, it does not come within the orbit of the International Bank, even if the Bank were able to command the necessary resources. However, aid under the Marshall Plan is intended to put the countries of Western Europe in a position three or four years from now where they can meet their normal import requirements out of the proceeds of export trade, with a good chance of creating a margin above that level to meet the annual costs of servicing a foreign debt incurred for capital expansion purposes. The inception of the ERP means, therefore, that the International Bank should be able to play an important part in the provision of additional investment funds for Western Europe since it provides an assurance that the basic conditions of economic progress will be more securely established.

I turn now to consider the role of Canada in this realm of international lending. I do this the more readily because I think that a review of Canada's position may illuminate in some measure the nature of the problems which face both our countries as they strive to re-create a prosperous and balanced world economy. It goes without saying that Canada should not normally be regarded as a potential borrower of the International Bank. While the Canadian economy may be considered as one which is still undergoing development, Canada has already gone a long way in this direction. For the most part it already has a balance of payments position, together with a capital market within its own borders, capable of meeting its own needs for investment resources. Indeed, for the past 15 years or more, the Canadian economy has generally achieved an annual export surplus in its international accounts which it has been able to use for the repatriation of its own external debt or for the making of loans and grants to other countries.

However, the most significant thing about the Canadian economy is that it is geared to a high level of foreign trade. Over the long pull a world out of joint means economic difficulty for Canada, as the depression of the '30's indicated. More than that, if Canada is to remain prosperous, the trade of the world must be conducted on a multilateral basis. As you know, the distribution of Canada's exports and imports is such that we operate with a large surplus in our trade with the United Kingdom, with Western Europe and with the other British Dominions and certain other areas of the world. On the other hand our trade with the United States gives rise to a substantial deficit with this country. The surpluses which Canada earns in its overseas trade has usually been sufficient to offset the deficit in our balance of payments with the United States provided -- and this is the vital proviso -- provided that the countries with whom we have a surplus can provide dollars in payment.

With these facts in mind Canada's interest in the maintenance of a multilateral system of world trade and in the restoration of the convertibility of currencies is clear and unmistakable. It is in Canada's interest therefore that it should do everything it can to foster a reconstruction of the economies of Western Europe and of those other areas of the world which need development or reconstruction. For that reason Canada, soon after the end of the war, embarked upon a programme of international lending, making credits available to the United Kingdom and, to a lesser extent, to the other countries in Western Europe. In all, these credits amounted to close on $2 billion, an amount which, for a country with a national income only 1/18 as large as that of the United States, will be recognized as quite substantial. As events have turned out the drawings on these credits have been more rapid than was anticipated when they were originally granted. This, of course, is only another way of saying that the pace of reconstruction and recovery in Western Europe was much slower than we had counted upon. The effect of this programme of international aid may be measured by reference to the position of the Canadian balance of payments over the last two years. In 1946 Canada had an over-all current account surplus in its balance of payments amounting to roughly $450 million. This is a measure of the amount which Canada might have made available in credits or grants abroad without drawing upon its reserves of gold and dollars. In point of fact, Canada extended export grants and credits to the amount of $850 million, or $400 million in excess of her current account surplus. This was achieved only by drawing upon the reserves of Canada in gold and U.S. dollars to the extent of $260 million.

In 1947 Canada continued to extend large credits to the United Kingdom and other foreign countries. Total loans and grants amounted to approximately $600 million. In addition Canada repatriated Canadian securities held abroad to the amount of $154 million and paid a $74 million gold subscription to the International Monetary Fund. Unlike the position in 1946, however, the current account surplus of Canada was relatively small, being only $70 million. The result therefore of large exports financed, in considerable measure, by credits and of large imports paid for entirely in cash was the rapid depletion of Canada's reserve of U.S. dollars. In brief, Canada's holdings of gold and dollars fell by $740 million. Looking at the question in terms of Canada's U.S. dollar requirements, Canada's current and capital account with the United States produced a net dollar requirement in 1947 amounting to $1,380 million. This deficit, so to speak, was met to the extent of $640 million by using the convertible exchange we got from countries other than the United States, in partial settlement of their deficit with us. To meet the balance of Canada's U.S. dollar deficit it was necessary to draw down reserves to the extent of roughly $740 million.

This drain on reserves was too severe to be allowed to continue, and steps had to be taken to correct the situation. In very brief terms, the Canadian Government found it necessary to slow down the rate of drawings upon the existing credits and to put into operation measures to reduce the volume of non-essential imports from the United States and other hard currency areas, as well as to reduce the expenditures of Canadians travelling for pleasure in this country. As a result the drain on our dollar reserves has ceased and the current surplus in Canada's international accounts is at least as big as the amounts we have contracted to lend abroad.

I mention this piece of recent history as a background to a question which it would be proper for you to ask. What help might Canada contribute towards reaching the objectives of the International Bank? When the establishment of the International Bank was first mooted, during the dark days of the war, it was expected that certain countries in the world, including Canada as well as the United States, would have a productive capacity large enough to enable them to spare a part of their out-put for assistance, in the form of either grants or loans, to countries in need of external resources. As events have transpired the United States and Canada were the two largest countries in a position, on balance, to give such assistance. (It is true that countries like Switzerland and Sweden have also been exporters of capital since the war. Indeed, many countries in Europe who are in the position of a net borrower in the over-all picture have nevertheless been able to extend credits to their more needy neighbours. However, the fact remains that the United States and Canada have been the only two countries in a position to make a substantial volume of international credits available.) The lending programme of the United States is known to us all. The policy of the Canadian Government was not greatly dissimilar. For the most part the credits granted by the Canadian Government were made to those countries in Western Europe (and particularl to the United Kingdom) which constitute important markets for Canada's exports.

I should mention the fact, however, that this programme of international lending was worked out in the main before the International Bank became a going concern. Had the International Bank been in operation at that time it is conceivable that part of the assistance which Canada was able to make directly and independently to the reconstruction of Europe might have been channeled through the International Bank. It is possible that the Canadian subscription to the International Bank might have been used by the Bank in connection with the granting of loans to certain borrowing countries. It is equally possible that the International Bank might have borrowed funds in Canada -- just as it did a few weeks ago in Switzerland -- for the purpose of lending Canadian dollars to the Netherlands or some other country in need of Canadian goods. As it is the International Bank has not had recourse to Canada for funds because the Canadian economy is already committed to a substantial programme of international lending designed to serve the same purpose as the loans already made by the International Bank. Indeed, as I have already suggested, the Canadian programme of international lending has proven to be somewhat heavier than could be borne without giving rise to an undesirable drain upon monetary reserves. Having said all this it should be obvious that, as the existing lines of Canadian credits now being drawn upon are used up and as the Canadian economy reaches the position where it is able to throw off an export surplus sufficient to restore the monetary reserves to a more appropriate level, it may well become possible for Canada, along with other countries other than the United States, to give further assistance in meeting the objectives of the International Bank in part through the medium of the International Bank itself.