INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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Address

by

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at the

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When the Life Insurance Association of America invited me to address your annual meeting, it was a privilege as well as a pleasure for me to accept. Since then I have resigned as President of the International Bank for Reconstruction and Development. I did so because, and only because, I felt strongly that the point had been reached when the Bank should have a permanent head. The basic organization of the Bank has been developed and it is now passing into the stage of operating activities. Its work henceforth must be viewed in terms of long-time continuous operations and its permanent head should have an opportunity to participate in the further determination of policies and procedures and the expansion of staff. It has been a privilege and a satisfaction to be associated with the Bank during its initial period and I shall
leave it with regret.

The insurance companies of the nation are an important factor in its social security. Under the supervision of the state authorities, you invest the funds for which you are trustees. Your first duty is to your policyholders and your first consideration must be the safety of your capital and income. But you also have a social responsibility to promote the public interest whenever you can do so without jeopardizing the security of your investments. Surely, the promotion of better world conditions is a matter of real importance to those you represent.

A year and a half ago, we and our Allies concluded a second world war and turned to the construction of the peace. We approached that difficult task soberly, determined to pursue it untiringly and patiently. Certainly, we did not expect the achievement of peace to be an easy task.

Our generation has had broad experience in searching for conditions which will permit peace to exist. No one would be rash enough to believe that we know the complete answer. But we do know that the building of a stable society upon the weakened foundations which a war leaves in its wake must necessarily be a painstaking, continuous and flexible process.

Long before the Bretton Woods Conference in 1944, members of the United Nations began to prepare for the establishment of an international bank to deal with the problems
of reconstruction and development. They recognized that these problems were of such magnitude that they could not be met through the conventional channels of private investment, or through the unintegrated efforts of governments acting separately. They recognized, too, that these problems affected the welfare of all nations—those that had escaped the direct ravages of war as well as those that had endured them. They recognized the world dependence on economic as well as political unity. They were keenly aware that the preservation of peace would be impossible unless men everywhere had the opportunity to earn a living and return as soon as possible to their normal pursuits.

The International Bank was conceived as an instrument for helping to achieve these human aspirations. It was designed to finance constructive undertakings in devastated or industrially underdeveloped countries—undertakings which would help men to contribute to the world's wealth and, through the exchange of goods with their fellowmen, to raise their own standards of living. Only an international bank can do this job on the scale on which it now has to be done.

The Articles of Agreement of the International Bank and the International Monetary Fund were drafted at the Bretton Woods Conference in 1944. Another year passed before the necessary number of governments had accepted the agreements and joined in the establishment of the Bank and the Fund. Last
spring organizational meetings were held, and the two institutions came into being.

That is the brief chronology of the efforts to organize the nations of the world for common action in the financial field. It is only one part of our new and extensive international mechanism. International cooperation must grow and develop; it cannot spring into full grown activity through a sudden act of creation.

After its formal establishment the Bank could not begin its operations immediately. A staff had to be recruited from among the competent people in many countries. That was not a simple matter. In my opinion we have done well. I have confidence in the ability and character of the personnel we have secured. But they were not secured easily or quickly.

The shortage of trained personnel in every country and in every field of endeavor was in itself an obstacle to rapid progress. It is only within the last few weeks that the Director of the Loan Department was appointed—Charles C. Pineo, a Canadian of competence and experience, who was until recently an officer of the Royal Bank of Canada in charge of their foreign business. The Vice President of the Bank, Harold D. Smith, was formerly Director of the Budget of the United States. The General Counsel, Chester A. McLain, is an American, who came to the Bank from the law firm of Cravath, Swaine & Moore in New York. Mr. McLain had extensive
experience abroad as well as at home in matters related to international finance. The Treasurer is D. Crena de Iongh, who was formerly the president of one of the largest banks in the Netherlands. The Director of the Research Department, Leonard B. Rist, is a French economist, who before the war was a vice president of Morgan and Cie. in Paris and, during the war, played an active part in the liberation movement. The Secretary, Morton M. Mendels, is a lawyer from Montreal, who was only recently released from the Canadian Army. In his work he was responsible for military estimates, finance and economic studies.

The Bank is novel in its organization. That is inevitably so, because no such institution ever existed before. Its members are thirty-eight governments, each of which is entitled to appoint a Governor. The Governors meet at least once a year and are entitled to vote the shares of the Bank's capital to which their governments have subscribed.

There are twelve Executive Directors and each Director has an Alternate. Five of the Directors are appointed by the members having the largest subscriptions to the Bank's capital, and seven are elected by the remaining members. With the President of the Bank as their Chairman, they meet regularly twice a week.

The Governors have delegated to the Executive Directors their authority with respect to the day-to-day operations
of the Bank. There is, therefore, a Board of Directors continually available in Washington to act upon the business of the Bank and give general policy directions.

I know you are interested not only in the way the Bank is organized but also in the manner in which the Bank conducts its operations.

You possess as a group a very large aggregation of investment funds and the Bank desires your active interest and support. The Bank needs long-term funds in order to carry out the purposes for which it was created and you, of course, want long-term investments. While you are not authorized under existing state laws to invest in the Bank's obligations, the Bank hopes that the necessary legislation will be adopted. It has felt, however, that the matter was one that should be dealt with by the regularly constituted authorities in this country.

The Bank must use its resources and facilities solely for the benefit of its members. It is authorized to make or participate in direct loans, or to guarantee in whole or in part loans made by private investors through the usual investment channels. If in any case a member is not itself the borrower, the member or its central bank or some other comparable agency acceptable to the Bank must fully guarantee the loan.

The first application for a loan which was sufficiently documented to be studied was not received until October. Since that time, four additional applications have been received
in form for consideration. Of these five applications, four request assistance in the reconstruction of economies which suffered seriously from the war. The fifth seeks funds for development projects.

Upon the receipt of these applications, a committee of officers from the various departments of the Bank was appointed to study and report on each. These studies have been going forward and considerable progress has been made.

Here are some of the questions which must be considered in the case of each application: Are funds available from private sources on reasonable terms? What is the effect of the loan on the country's economy and how sound is the investment? What are the prospects that the borrower will be able to meet the obligations incurred? If the loan is to be granted, what would be a reasonable rate of interest and what other charges should be made? Is the schedule of repayments appropriate to the loan? What methods of supervision can be undertaken to see that the credit is properly used and repaid?

Under the Articles of Agreement of the Bank, loans are required to be for the purpose of specific projects of reconstruction and development, except in special circumstances. I mentioned that one of the applications now before the Bank seeks the financing of specific development projects. Naturally, new development is planned and undertaken on a project basis, in an effort to expand and modernize the productive facilities of a
country. A power plant or a steel mill can be built; a rail-
road can be run into a previously inaccessible area if the
necessary manpower and local resources are available. There
are many such projects which can be carefully planned and
engineered in any underdeveloped area, although it takes a con-
siderable amount of time to prepare such plans.

The situation is somewhat different, however, in the
case of countries whose economies were destroyed and disrupted
by the war. In many instances, those countries were highly
industrialized prior to the war. Their need now is to re-
build and modernize their facilities, or even to expand them
in order to strengthen their economies and increase their
standards of living. In these countries it is not possible to
think of projects only in terms of a particular power plant or
other facility. Often the best way to promote reconstruction
will be to undertake a general program for the repair and
modernization of large segments of their economies.

In making loans, the Bank will be interested in the
foreign exchange resources of the borrowing country. The fact
that the financial assistance provided by the Bank results in
profitable undertakings within a country does not necessarily
mean that the borrower will have the resources required to
repay the Bank. The Bank will be lending foreign exchange
with which borrowers can buy goods abroad. Therefore, it is
necessary to consider the ability of the borrowing country to
repay the Bank with currencies other than its own. Obviously, the Bank's assistance cannot be limited to projects or programs which will result directly in the receipt of foreign exchange. But in each case the Bank must be satisfied that the over-all effect of its loan, combined with the resources and efforts of the borrowing country, will be to improve the economic position of the country sufficiently to give reasonable assurance that the foreign exchange needed for repayment will be available.

The Bank, to succeed, must be operated as a business institution, guided by economic rather than political considerations. In fact, the framers of the Bank's Articles of Agreement provided that only economic considerations should be relevant to the Bank's decisions. In other words, the Bank has been given a mandate to operate on a business basis.

I have discussed the nature of the Bank's operations and the considerations to be taken into account in making loans. Now I would like to tell you something about other elements in the Bank's structure and operations which bear upon the character of its securities as investments.

The governments which are members of the Bank have subscribed to its capital stock over 7-1/2 billion dollars. Four additional countries, recently declared eligible for membership, will bring the total to approximately 8 billion dollars. Of this amount, the Bank is entitled to require the
payment of 20% as working capital. Ten per cent, or the equivalent of about 750 million dollars, became payable by November 25. The full 20%, which amounts to approximately 1½ billion dollars, will have been received by next May. One half of this sum, or about 750 million dollars, will be in gold or United States dollars, the rest in other currencies of the members.

The remaining 80% of the members' subscriptions to the Bank's capital is not subject to call except for the purpose of meeting the Bank's obligations.

I recently noticed a newspaper story in which it was stated that there had been no official ruling as to the exact procedure under which calls could be made against this 80% of subscriptions. It was further stated that certain investors had asserted that there was a serious question whether, if one or more members defaulted in the payment of calls on their subscriptions, the Bank could make additional pro rata calls on capital until the amounts paid in by non-defaulting members up to the full amounts of their respective subscriptions should be sufficient to meet the obligations of the Bank.

I think you will agree that it is unreasonable to expect the Bank now to make official rulings defining the exact procedure which it will follow in the remote contingency that it should need to call all or part of such eighty per cent of its capital in order to meet its obligations. I think, however, that I can clear up any doubt as to the answer to the
particular question which seems to have been bothering the
writer of the story to which I refer. I am assured by the
General Counsel of the Bank that in his opinion the obligation
of each member on its subscription to the capital of the Bank is
independent of the obligations of other members, and that in
case some members fail to respond to a call on their subscrip­tions, the Bank may continue to make pro rata calls, up to the
full amount of its capital subscribed and unpaid, until the
amount received by the Bank is sufficient to meet its obliga­
tions for funds borrowed by it or on guarantees made by it.

The Bank's working capital is available for lending
and may serve as a revolving fund. Most of the amounts used
for loans will have to be replaced through borrowings. In
fact, most of the funds required by the Bank in all its lend­
ing operations must be obtained through the sale of debentures
in the public markets from time to time.

The security behind the Bank's obligations will be
its loan portfolio, its reserves, its paid-in capital on hand
and its ability to call upon its members for part or all of
the remaining 80% of their subscriptions. If and when such call
is made, the Bank is entitled to require that payment be made
in the currency necessary to satisfy its obligations.

Let us examine for a moment the nature of this
security.

It is unlikely that the Bank will borrow funds on
a large scale in advance of the need for them since it will
not want to pay interest on idle money. In no event can the Bank's loans and guarantees exceed the amount of its unimpaired subscribed capital, reserves and surplus.

Those who hold the Bank's obligations will have the Bank's loans as the first line of security. I certainly shall not hazard the flat assertion that all the Bank's loans and interest thereon will be repaid in full and on the dot. There may be some defaults, and adjustments may have to be made where difficulties arise. But even if there are some defaults, the eighty per cent of subscriptions to the Bank's capital can be called in any amounts and in any currency required to meet the Bank's obligations.

Furthermore, under the Articles of Agreement, the Bank is required to charge a commission of from one to one and a half per cent on all the loans it makes. This commission must be held in liquid form as a special reserve to meet the Bank's liabilities. After the first years of operation, this reserve should amount to a substantial sum.

Apart from the portfolio, the special reserve and the subscriptions which can be called, there may be other reserves as well as a surplus arising from the Bank's operations. And as a final item of security, there is the paid-in capital of the Bank, which can be exchanged by it, without restriction, into any currency which the Bank needs to meet its obligations. The portfolio, together with reserves, surplus and subscribed
capital cannot be less than 200 per cent of the Bank's obliga-
tions.

I think you will agree with me that, in framing the 
Articles of Agreement of the Bank, they intended to make every 
effort to assure a conservative operation.

I look upon the Bank as a great opportunity for the 
people of the world—not merely for the people of the borrowing 
countries, but for those in the lending countries as well.

The workers and the managers, the scientists and the 
enGINEERS in the borrowing countries, with technical help from 
the outside in many cases, must plan projects of sound recon-
struction and development. If the Bank assists in financing 
those projects, the people in the borrowing countries must 
labor to construct and operate them for the benefit of their 
fellow citizens. They must act wisely in handling their domes-
tic economies so that the anticipated benefits will be realized. 
They must act carefully so that their budgetary and fiscal 
affairs, as well as the social measures they undertake, will 
bring a rising standard of living to their people and not a 
period of boom, followed by a bust.

But the laborer and the trader, the manufacturer and 
the engineer, and the investors in the producing and creditor 
countries must also shoulder a share of the responsibility.

Many countries today have been laid waste by war. 
Their economies have been disrupted and their administrative
and distribution machinery shattered. Unless the destruction can be repaired and the normal functions of economic life resumed, we will not achieve the secure peace for which we fought.

I had occasion recently to comment publicly on the famine of materials and manufactured goods with which the world is threatened. The famine of raw materials and manufactured goods can be just as real and just as desperate as the lack of food. American management and American labor have it within their power to meet a very great part of the world's essential material needs. Our factories and plants and those of Canada and other countries, which did not suffer direct attack, are the hope of the world. We have in our hands the power to decide whether we will regenerate the world's economy or whether we will squander our productive capacity by leaving it idle or by producing only enough to satisfy our own requirements.

We shall also have to share our technicians—the engineers and chemists and agronomists—to help the devastated and underdeveloped countries plan their programs of reconstruction and development.

Furthermore, the creditor countries will have to invest their capital resources productively in other parts of the world where it is needed. All the funds of the insurance companies in the State of New York are not invested within the boundaries of the State; they find their way into channels which
carry them throughout our country to strengthen the economies of other states and other areas. Now foreign countries are a logical field for carefully planned investment. It is evident that most of the funds required by the Bank in addition to its capital must, for the present, be obtained in the United States.

Let me also point out that the participation in the Bank's success is certainly not limited to the direct purchase of its securities. One of the principal functions of the Bank is to promote private foreign investment. The Bank can help to fill the gap which now exists between widespread and urgent needs and available private resources on reasonable terms. Its operations, however, are not a substitute for healthy private investment. The loans it makes will, I hope, contribute to the strength and stability of the borrowing countries and improve the climate for private lending. They should also help to bring about conditions under which private trade may be restored and expanded.

If we want to enjoy the kind of economic society in which individual men can thrive and live comfortably, we cannot retreat into our own rich land and cease to care how the rest of the world lives. We cannot do that because there is no way of shutting ourselves up and keeping the rest of the world out. The spread of economic disease beyond our shores will eventually infect us. The deterioration of the economic conditions under which men live inevitably leads to political illness, which
will surely involve us unless it is cured. In other words, we cannot be the only happy and prosperous country on the face of the globe.

The International Bank was conceived as an opportunity for business and labor and technicians in all countries to work together toward a more prosperous world.

The Bank's efforts alone will not bring about the conditions which we wish to see restored throughout the world. There is need for action on many fronts. The International Monetary Fund has the highly important task of bringing stability into the chaotic area of international exchange. The Food and Agriculture Organization is concerned with improving agricultural conditions throughout the world. The United Nations have already taken preliminary steps to establish an International Trade Organization. In other fields as well, men of goodwill are working together to forge the economic conditions of peace through mutual assistance.

I am convinced that in a world of mutual suspicion and smouldering conflicts our efforts to expand trade and raise standards of living among the nations will be futile. I am equally convinced of this: We shall not have peace unless economic conditions are bearable and backward economics are helped to go forward.

Whether we live in a borrowing or lending country we can all play our part in improving international relations and in strengthening the forces which benefit men in their daily lives. We can, each and every one of us, help to lay the new foundations upon which enduring peace must rest.