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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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In casting about to select from the limited field in which one might have anything worth while to say for a subject on which a group such as this might like to be informed, I have been tempted not to confine my remarks solely to the subject of the International Bank, its operations and its objectives, but to venture somewhat farther afield. I have thought it might be more appropriate if I talked a little about this elusive matter of international economic recovery as it strikes one who has been exposed to the necessity of thinking seriously about it for the better part of the last two years.

At the close of the war we were all faced with the dangerous condition which afflicted an area that for the previous two centuries had grown to be the nerve center of the world's economic, political and cultural development. The two great wars that had been fought over Europe were not solely responsible for the disruptions which occurred. There were seeds of disintegration apparent for those whose intelligence was keen enough to discern them even before the wars took place. To be sure the process was, at least, vastly accelerated and heightened by the work of the twentieth century aggressors whose depredations it required so much energy and wealth to curb.

The great cohesive influence of the British Empire was diluted by losses of a staggering character. This influence had been sustained by a combination of the toughness of British human values, very favorable terms of trade, large accumulated reserves, and the maintenance of a rather complex nervous system of international trade and finance, of which the wars seriously impaired all but the human qualities.

Germany, which for years had been one of the area's chief suppliers and purchasers, was almost completely destroyed economically and politically. France, Holland, Italy, and to a considerably lesser extent Belgium, were demoralized by occupation and destruction to a point where people could not be continuously fed and clothed, much less be expected to sustain their former economic vigor. We rather blandly assumed that after this devastation there would emerge a period of calm and cooperation. We might have known better since the pattern of history shows

that unity and cooperation among the victors seldom survive the urgency of war.

In all this welter of confusion and despair the United States has emerged as the wealthiest and most potent economic factor in the world scene. This in itself carries great implications. Even were it not for the great political issue which the rise to power of the Soviet Union has created, it was and remains inevitable that the amounts and extent of aid the United States might render to those less fortunate was bound to be in the forefront of all men's minds.

The United States was faced with a somewhat similar situation after the first world war and credits were then given - large government credits - very few of which were ever repaid. And substantial private capital, gradually gaining confidence in the then hope of European recovery, moved to Europe but in large degree with disastrous results for the American investor.

This tendency in the midst of disaster for the strong to aid the afflicted is a compelling human tendency. It is powerful and righteous. To fail to respond would be more unnatural than to do so. The fact that the United States responded in a manner unprecedented in history will stand as a great milestone in the march of human progress, despite all the efforts of the villifiers to decry it. Whether that response has been motivated by self interest or pure humanitarianism, or a mixture of both, it does not seem worthwhile now to debate. The important thing is to appraise objectively the effects of the aid given and to be given and take the measures best designed to ensure that it accomplishes the purposes intended.

In our experimentation with these problems during and after the first war we relied primarily on loans - government and private. If those then responsible had then known the relation of exports and imports and invisibles to the prospects of loan repayment they gave little evidence of it and the result was the ill-will which the debt repudiation period engendered. The United States by a number of examples has shown that it has now accepted the doctrine that the necessity or the urge to give aid may out-distance the possibilities of repayment, at least in tangible form. The lend lease legislation, the UNRRA grants, and more recently the large ECA grants are the chief examples of the new thinking in this regard. But all admit that this cannot be carried to an extreme and there are some things which a mere plenitude of dollars cannot achieve. There comes a point when both the grantor and the receiver of aid must think in terms of the grantee supporting himself, unless we are prepared to accept the concept that his weakness is fatal and there is no hope of any recovery. In such a case only death can relieve the burden of dependence from the shoulders of both the giver and the taker.

But we know that there is vitality in the human race of a rather extraordinary character. All the ravages of war have failed to quench the ever present human instinct to restore and repair, to stand erect and unsupported. We may talk with some reason of inadequate effort and lack of cooperative spirit among the European countries and of assumptions too easily made concerning continued and easy aid, yet we have to bear in mind that in spite of the vast assistance which the United States has rendered to other areas of the world in the post-war period, by far the largest contributions to recovery have been made by the recipients themselves. The greatly increased production figures which Sir Stafford Cripps was able to announce to the House of Commons and to the world, the general accomplishments of the bulk of the European countries in arriving at pre-war or better production figures, is due primarily to this instinct. It has only been strengthened and stimulated by the aid which has thus far been given from the United States.

Many people have attempted to estimate the total figure external aid must

reach in order to generate the proper take-off speed to enable countries to reconstruct and to develop on their own accord. This figure is not capable of as nice calculation as can be applied, let us say, to the amount of thrust that is needed from a jet booster in order to enable a plane of certain flying characteristics to be maintained in flight. The United States in relation to one section of the world, Western Europe, has taken a good guess at the amount of extra propulsion that is needed and the length of time that it should be applied in order to make Western Europe air borne. Though the real test of flight has yet to be made, there seems to be as yet no clear indication that the guess is not a reasonable one.

There is much discussion now going on in Washington as to how much Congress ought to appropriate for the second year of E.R.P. - whether it should be the full \$4.3 billion figure suggested by the E.R.P. countries themselves, or some figure slightly less. I do not propose to enter into that discussion here. For the solution of Europe's long-term problem depends, as I see it, not so much upon the precise size of the appropriation to be made, important as that may be, but rather upon action on both sides of the Atlantic to rectify the fundamental economic maladjustments which create the need for that appropriation. I say both sides of the Atlantic because obviously this is a common problem. Much money has been made available by the United States and more will probably be forthcoming, but anyone who knows anything about giving away money or lending money knows that money itself never solves the whole problem. There are many steps to be taken, by both the giver and receivers of the aid, if the money made available is to be fully effective.

I think my first suggestion for the recipient countries would be to avoid, as one would avoid the plague, the tendency to rationalize the solution of all or most of their problems in terms of further action on the part of the grantor. One of the major problems harassing the administrators of the recovery program is the negative incentive which it partially induces. Those who have the greatest need, that is those with the greatest deficits, receive the largest grants. Those who have the least need, in many cases due to their own determined efforts, receive the least. The political nettles attending upon straightforward financial steps seem the more difficult to grasp the greater the amount of external aid available. Nations, like individuals, postpone difficult decisions, some longer than others. If it is pointed out that the United States itself is strongly subject to this tendency, this scarcely constitutes justification for procrastination on the part of the recipient if only for the reason that it is a greater hazard for the recipient than it is for the grantor.

There is need to correct a tendency to feel that 1952 is a long way off and that therefore a relatively long period remains in which to make the adjustments which it is recognized must some day be made. In respect of non-European countries the same tendency exists though it takes a somewhat different but equally dangerous form. The fact is that 1952 is just around the corner for Europe and for the non-European countries the period of peak export prices may be even shorter. One of the most encouraging things about the recent interim report of the Organization for European Economic Cooperation is that the European nations themselves are beginning to recognize that they now have to make determined readjustments in their programs if they are to avoid a much more serious readjustment at a later date. It needs no similar report to demonstrate that if non-European countries are not taking steps to put their fiscal and economic affairs in order in a period when export prices are the highest in history, it will be much more painful to do so when this may no longer be the case.

The Western European countries have achieved some striking increases in production and exports. In some countries the standard of living has risen sharply, in a few cases perhaps too sharply. These are important gains, but they must not be allowed to conceal the need for even more sustained and intelligent effort in the direction of increasing production, stimulating exports, which, of course, includes the necessity of facing the problem of costs and less resistance to change in method. These things require readjustments which can be effected smoothly only if there is a broader education of the people of Europe as to the realities of their position. It is not sufficient that the economist or even the politician should know these realities. It is important that the workers should know and understand them. Barring a few areas I think the significance of the Marshall Plan has been much more widely discussed and expounded in the United States than has been the case in Europe, yet the need for a full understanding of its necessity and its implications is much more important to Europe than to the people of the United States.

When so much depends upon attaining a balance of trade, particularly with the Western Hemisphere, one would expect that greater steps would have been taken by the European countries to reach the American market. During the last three years the proportion of European exports going to the Western Hemisphere has been smaller than before the war even though the exporter has enjoyed a seller's market here. European exports have been attracted to other regions where prices were higher and market conditions easier. I realize that there are many difficulties in the way of exporting to the United States but it is a mistake either to exaggerate the obstacles or to underrate the extent of the American demand. British automobile sales in the United States were greater than anyone expected in 1948. There were special circumstances to be sure but the fact that British cars in any quantity could sell in the United States, particularly with the relatively high cost of the cars, shows the possibilities which exist. Sustained effort, good quality, reasonable prices, will find a response in the American market, and when it is borne in mind that the problem for Europe is not to capture large share of the market but only to achieve a volume of sales amounting to a fringe of the American demand it would seem that greater efforts in this direction could profitably be made.

It has frequently been urged that the recovery of Europe and the development of other areas is a matter of adjusting exchange rates - it is true and I think no one can seriously deny it, that the dollar is under-valued in relation to many other currencies, or to put it another way that such currencies are over-valued in relation to the dollar. This means that the foreign importer is frequently stimulated to buy goods in the United States and conversely the prospective exporter is induced to sell his goods not in the United States but in the areas where prices are higher. To reverse this tendency is one of the great objectives of the recovery program. But this recovery problem cannot be solved by the application out of hand of a single exchange rate formula. The condition which creates such rates and not the rates themselves must first be dealt with. It would serve no purpose to adjust rates without first coping with the problem of inflation by recognizing the homely need of living within your income. An adjustment of foreign exchange in relation to the dollar would spell real harm if such an adjustment could not be made to stick, as it certainly would not, if national expenditures constantly outdistanced national revenues. The important thing is to move toward the solution of the problem on both fronts and not postpone action on each front because of failure to act on the other.

One particularly effective method of dealing with inflation is by means of the imposition and enforcement of an appropriate system of taxes. It has been

proven that appropriate taxes can be levied in a free society. It is the essence of a free society that they be fairly levied. Certainly it is true that nations which do not impose a fair system of taxation upon their citizens cannot in the long run rely upon the tax collections of other nations that do so. I am not fully convinced that all countries have recognized this truism.

For a time I think most of the news from Europe was discouraging insofar as it related to cooperative action. Long established patterns of trade diverse and isolated national traditions blocked all efforts to bring out into the open national plans for recovery. However, in the last few months through the pressure of logic and the gradual realization of the necessity, officials of the respective recipient countries finally have put their plans upon the table where they were subjected to real scrutiny and cross examination by the experts of the various nations. It is not to be wondered that the plans disclosed many incongruities and that each was poised in the direction of selling much and buying little. Nor is it surprising that they disclose a continuing deficit of \$3 billion for 1952.

It is disappointing to be sure but now the E.C.A. and the nations themselves can see by how much their plans are inadequate. With this approach we can feel we really are beginning to get somewhere and if it is continued it may well mark the turn of Europe toward true recovery.

I have referred only briefly to the non-European area, yet all areas are related economically in this recovery program. As Europe recovers more purchases can be made from non-European areas and conversely as underdeveloped areas expand their productivity they become both a better source of supply and a better customer for Europe. To take part in a vigorous trade the non-European countries have likewise many things to do. They must check inflation, press exports, diversify their products; they must truly encourage the flow of private capital, and they must not incur over burdensome debt.

I have talked of what other countries must do if recovery is to be achieved but, as I have indicated, there are steps which the United States itself can well afford to take to complement the efforts of its neighbors across the Atlantic. If we are disposed to feel that having given such large sums of money the United States cannot reasonably be called upon to do anything else, there is some justification for that attitude. But if we look at the matter purely from the point of view of fundamental United States interests this is not really the answer.

We must never forget that Europe's dollar problem is America's dollar problem as well; the extent of Europe's deficit in its dollar balance of payments is a measure of the amount of goods and services this country is sending to Europe for which it is not receiving payment. It follows that any steps which the United States can take to enable Europe to reduce its dollar deficit will mean a smaller overall drain on this country's resources. Such steps cannot be regarded simply as an added measure of generosity to Europe. They are justifiable only as they conform to the economic self-interest of the United States.

Let's take a look at what some of these steps are. The first and most obvious is action to stimulate imports into the United States - to get additional goods and services in return for those we are sending abroad. There are many legislative restrictions on the ability of other countries to sell or perform services in or for the United States. We all know about the tariff. It is not as high as it used to be but it is still a deterrent. There continue to be severe restrictions on the type of activities which can be carried on in the United States

by foreign banks and insurance companies. And you are all aware of the restrictions which exist on the use of foreign shipping to carry American goods. Now it is true that particular groups within this country are helped by these restrictions and perhaps in the case of shipping there are certain strategic advantages to be derived but they do not aid the United States economy as a whole. To the extent that they prevent the European countries from providing goods and services to the United States in return for dollars, they prevent the United States from receiving a return on the excess of exports it sends abroad. In plain words, these restrictions cause America to give away things for which, in the absence of restrictions, it would be paid, for either the taxpayer must pay for that excess or the foreigners must be allowed to earn it. To put it another way, every dollar earned by foreign commerce is used sooner or later to buy something else in the United States.

There is another field in which the United States might help to solve its own problem of having to give away its goods and that is to encourage other countries to look elsewhere than to the United States for goods which can be procured elsewhere. A high volume of exports, far from being an asset, is a decided liability if, as at present, a large percentage of those exports is being financed by grants. It is therefore in the interest of the United States that other sources of supply be developed and the dependence of other countries on United States exports be reduced.

Translated into practical terms, that means that the United States should look with favor upon the efforts of other countries to limit their purchases in the United States to essential goods they cannot make themselves or procure from other sources. Call this discrimination against American goods if you will, but it is a way to avoid giving away goods. Certainly it would seem better that goods be purchased in countries where they can be paid for in currencies earned by the purchaser rather than in the United States where they can be paid for only in dollars which the purchaser has not been able to earn. The world is not yet at a stage of economic health where it can afford the luxury of unrestricted multilateral trade.

If it is important to the United States to reduce the Marshall Plan bill it is important that all efforts to use American foreign assistance as a vehicle to dump surplus American production be resisted. The purpose of the foreign aid is to help the recipient countries to get back on their own feet, not to subsidize uneconomic exports from the United States. To the extent that that purpose is distorted European recovery will be delayed and American taxpayers as a whole will be penalized for the benefit of particular producing groups.

Finally, I believe that American private investment abroad should be stimulated by every possible means so that there will not be any undue protraction of the period of necessary inter-governmental financing. This is desirable not only from the standpoint of alleviating the burden on the American taxpayer, important as that consideration is, but also because private investment is far healthier, economically and politically, than governmental loans and grants.

Little could, in my judgment, be more productive of hostility towards the United States, or little could be more demoralizing than to have the other nations of the world over a long period of time regard the United States Government as their principal source of foreign capital. Under such circumstances, those receiving financial aid would not regard it as exceptional but as a matter of right, while those who received nothing, or less than they thought they were entitled to, would consider the United States guilty of unfriendly discrimination. There would be no end to the calls made upon the United States and, should the United States itself

decide to halt the program, it would be confronted by outcries from every side.

That brings me to the International Bank, for the Bank, as I have had occasion to say many times, is essentially a bridge between inter-governmental lending and private investment. Although the Bank is an inter-governmental agency, it has a mandate to conduct its affairs on a non-political and objective basis, it operates for the most part with funds raised by it in the private investment market and its lending activities are and must be carried on in a businesslike manner. The short-run objective of the Bank is to provide capital for the most urgent and productive reconstruction and development projects in its member countries. The long-run, and what I regard as the more important objective of the Bank, is to blaze the trail for sound investments in far greater amounts by private capital.

The Bank is not in the business of making political loans or relief loans or loans to cover current balance of payment deficits. Our field of operation is rather the financing of specific productive projects in cases where reasonable prospects of repayment exist but where the risks involved, for one reason or another, are too great for private capital to assume. We hope that the character of our loans will be such that, on the one hand, they will create in the borrowing countries an economic base and an economic climate conducive to the flow of foreign private capital and, on the other, that they will help to restore the confidence of investors which was so badly shaken by the careless international lending and borrowing of the 1920's.

During the ERP period, the Bank's activities in Europe will necessarily be dwarfed by ECA; all we can hope to do is to supplement the ERP program by financing certain of the longer-term projects for which ECA funds may be insufficient. Our primary emphasis will necessarily be, therefore, on the financing of productive projects in the underdeveloped countries and colonial areas of the world. There is ample scope here for all the imagination, ingenuity and vigor we can bring to bear. The success we achieve will be important not only for the underdeveloped areas themselves but also for Europe and for the United States. For to the extent that we can help to increase the productivity of Latin America, of Africa, of the Middle and Far East, the dependence of Europe and of other countries on American exports will be diminished and there will be a smaller United States export surplus for the American taxpayer to finance.

All of these problems of international economic recovery which I have touched upon are complicated and baffling. It is much easier to state the difficulties than to find the solution, much easier to give way to pessimism than to sustain the hope of success.

Progress has been made and very real progress - the important thing is to maintain and accelerate it. The year 1949 will be another crucial year and at the end of it we should know whether affirmative forces have really been generated on the basis of the very greatly increased productive capacities which now exist. The values which will have to be applied in the coming year will at least be as much moral as physical.