

ADDRESS BY MR. JOHN J. McCLOY, PRESIDENT OF THE
BANK, IN PRESENTING THE THIRD ANNUAL REPORT OF
THE BANK TO THE BOARD OF GOVERNORS AT THE SECOND
SESSION, SEPTEMBER 29, 1948

It is of course a great pleasure to welcome the Governors to the situs of the Bank, to be able to present a new Annual Report, and to renew our exchanges regarding the Bank and its affairs. I have but few thoughts to add to those which are included in the reports already in your hands.

I should like to draw your attention to an aspect of the Bank's operations which might be overlooked if attention were not specifically drawn to it. It is always wise to recall that the Bank and the Fund, even though their deliberations may be of less significance than those of the General Assembly and Security Council, are yet a definite part of the United Nations concept. I think, therefore, that it is worth recording that the Bank, and I am sure the same remarks can be made of the Fund, has been in active operation as an international agency for a considerable period of time with a commendable and really hopeful display of tolerance and good temper.

The Directors and the Staff represent many and diverse political points of view and there is at least as much vigorous disagreement among the economists and bankers in the Bank as one could confidently suppose such a group would generate. But what I have had reason to state elsewhere I think it is proper to repeat here, namely, that in an institution where objectivity rather than purely representational attitudes is essential to sound progress, the Bank has had from its Directors and its Staff all that could be desired in this regard. If such objectivity is maintained to the point where it becomes a tradition, greater consequences may flow from it than can be measured by the value of the projects the Bank finances.

The major event of last year has been the introduction of the European Recovery Program as a new and mighty contributing factor in the economic rehabilitation of the

world. Though the operations of the Bank are world-wide and while at least the direct operations of the European Recovery Program are confined to a certain segment of the world, the effect of that Program on the operations of the Bank, as well as on the economies of many countries, weighs very large indeed. Its recognition of the fact that outside aid alone will not eliminate persistent deficits unless matched by vigorous steps to solve the problems of inflation, production and trade, greatly advances the objectives of the Bank. By placing a more substantial floor under the operations of the Bank in the areas where its direct and indirect benefits can be felt, it both enhances the likelihood of recovery in those areas and increases the security of the Bank's investments. Moreover, it has helped to solve a serious dilemma with which the Bank was originally faced, namely, whether to aid hard pressed economies by what could only be palliatives or to refuse any help at all.

Many people have ventured to say what was in the minds of the founding fathers at Bretton Woods and, as I was not there, perhaps I can speak with greater freedom than the many of you who were. At the time of Bretton Woods, the extent and nature of the economic convulsion which had come upon the world was not apparent, nor could it be foreseen that the post-war world would be politically so sharply divided as seems now to be the case. The concept seems to have been that the maladjustments in the balance of international payments which might be expected to arise from the war would be temporary and could be dealt with through the operations of the International Monetary Fund, while the Bank, operating in the restored confidence of a united world, could cope with the specific reconstruction and development needs that private capital, for the time being, might not be available in sufficient quantity to meet.

However, we now know that the world has experienced an economic earthquake, whose rumblings began long before the war. The immediate effects of the war and the emergency of the Western Hemisphere as such a disparately great productive factor, has left a wider crevice in the world economy than all but a very few anticipated. As full realization of the actual condition came about and the overpowering need of dollars to buy the sheer necessities of life developed in the European area, a number of supplemental forms of aid were patched up, until finally these culminated in the largest and best integrated of them all—the European Recovery Program. With these supplemental and parallel forms of aid the Bank can now, as I see it, come much closer to playing the role originally designed for it, namely, to finance within its resources the creation and maintenance of the sort of productive and bankable enterprises or projects for which, for the time being at least, no sufficient amount of private capital is available. To be sure, as the Bank depends on private markets and not on government contributions for the bulk of its funds, some alleviation of the continuous series of political crises is required if it is to operate in full vigor.

As for our relations with the Economic Cooperation Administration and other agencies of similar character, I feel one should face the fact that it will always be difficult, and perhaps impossible, to lay down any hard and fast rules limiting or delimiting the respective fields of activity between ourselves and such agencies. If we are to have flexible institutions best able to accomplish the fundamental objectives, no one of them should be too rigid in its approach but some general areas should in my judgment be defined or else much confusion and considerable loss of potential aid will result. Contact with the officials of the Economic Cooperation Administration and the Export-Import Bank is never difficult to effect and I am confident that we can rely on every effort being made to eliminate the causes of any confusion or waste.

It is altogether probable that other agen-

cies may be able to proffer terms in connection with their lending quite different from those which the Bank is able to afford. Yet it should not be forgotten that the Bank is able to render very substantial aid not only within practical reach of prospective borrowers who present really productive enterprises, but, by reason of its public guarantees, on terms more favorable to the borrower than could possibly be obtained privately save in very rare instances. The Bank was created to meet a long term need which will remain when the present emergency is over—the need for a continuing organization to promote international investment on a scale sufficient to ensure a balanced development of the world's resources and living standards.

I would suggest that these are matters which the member countries should take into account in considering their reconstruction and development programs. Today extraordinary international assistance is required to meet extraordinary contingencies. But this situation cannot be relied upon to continue for more than a relatively few years and, in my judgment, rightly so. In the long run, it is no healthier for nations than for individuals to rely for their support on grants or on loan financing on terms resembling grants. Sound international investment over the long pull must, I suggest, be based on the willing assets of the saving public rather than on the power of the tax collector. The Bank was designed to induce and encourage private investment and it can greatly assist in bringing this about, but the process must be a gradual one. We cannot safely wait until all extraordinary types of aid have ceased in order to start the process.

This brings me to another thought. The Bank is more than a lending agency. It is a great and worthy international cooperative effort to promote orderly economic development and improved living standards in the world. Many nations have pledged their credit to accomplish this. I would urge the members to find the means to take affirmative steps to preserve this spirit of cooperation. A number have done so, but there are fields in which more cooperation could be achieved.

We have already communicated to the Governors the desirability of having legislation enacted or regulations adopted, where needed, to qualify the Bank's bonds for investment in their respective countries. Our report also stresses the efforts being made to secure funds from other markets than those of the United States. These efforts will continue and we enlist your help. Few, I believe, appreciate the effect which the availability of such funds, if only in modest amounts, has upon the United States market and the public opinion which, in the last analysis, supports the market. Where, for example, foreign enterprises are required by local laws to hold a certain reserve of local government or other types of bonds as a condition of doing business in a particular country, it could be most beneficial to the general acceptance of the Bank's securities if at least a certain percentage of those reserves might be held in International Bank bonds.

Another field of cooperation can be found in making available for investment in the Bank's bonds a portion of the outstanding and acknowledged external reserves of member countries and their citizens. This involves no loss in dollar reserves but it does mobilize for reconstruction and development purposes moneys which would otherwise not be so employed. I know of no better security than the Bank's bonds and the gesture of confidence and constructive cooperation which such action entails can therefore certainly be made without any added risk.

Closely allied to this entire subject is the availability of the so-called 18 per cent. of the capital subscription of the Bank. This, as you all know, is that portion of the subscription of each member paid in the local currency of that member and which, with the consent of the member, is available for Bank lending. It was a fundamental concept inherent in the capital structure of the Bank that up to 20 per cent. of the capital subscription was to be made available through the medium of the Bank for the Bank's lending purposes. I believe the time has come when more serious consideration should be given to the use of this asset if only modest amounts are made available initially. The

Bank is keenly aware of the reasons, many compelling, which have prevented the free use of these facilities to date. Till now few countries have been in a position to export substantial amounts of goods on credit, yet some real opportunities do exist, opportunities which could be availed of through the medium of the Bank.

It would therefore be most helpful if the members would re-examine their position and currently apprise the Bank of the extent to which and in a proper case the conditions under which they would be willing to have a part or all of their local currency subscriptions to the capital of the Bank used by it for lending purposes.

Similarly, I would ask our prospective borrowers, and they may be in some cases the same as those whose capital subscriptions may be needed by the Bank, to investigate fully the sources of material supply in the hope of finding substitutes for their dollar financing needs. The contribution of the Bank to a balanced international trade would be much enhanced if steps along these lines were taken.

I come back to the concept of the Bank as an international cooperative institution and I suggest that in considering these matters they should be approached with that concept in mind and not solely upon the basis of a nice balance of convenience or too close a calculation of the immediate as distinguished from other quite valuable long-range benefits.

Considerable comment has been provoked by the fact that our operations to date show a modest profit. We have been able to show such a profit in spite of the fact that we have been rather severe in charging certain items to current operations. The significance of this profit should not be over-estimated. One must admit that it is due much less to wise and economic management than to the fact that thus far we have been able to draw on our capital funds for our lending operations. The amount of our dollar capital amounted to roughly \$735,000,000, and we have thus far committed \$519,000,000. With all our borrowers meeting their interest and commitment charges, we could certainly have been charged with extravagance if we did

not show a profit. But considering the constant need to build up reasonable reserves and considering the fact that when we have used our capital funds which are available for lending we shall be dependent upon the amounts we can borrow for our lending operations, we can well foresee that our margin of profit in relation to the volume of loans outstanding will narrow. Indeed the time may come when we shall have to give careful attention to the synchronizing of our borrowing and our lending. Moreover, a reserve of earnings can be most usefully employed in many ways to further the objectives of the Bank. For example, it can enable us to do more in the way of investigating and assisting, particularly the under-developed countries, in the selection of sound projects. We do not now charge the expense of our missions to the various countries and the accumulated cost of these is substantial. Furthermore, a reserve of earnings had the beneficial effect of making us less dependent upon the vicissitudes of the bond market.

I would like now to say a word about our provisions and practices for following up the utilization of the proceeds of our loans. I think there is no feature of our organization which prompts more interest, at least among investors, than does this one. It is a fact that support for the Bank's borrowing operations rests not solely on a knowledge of the security behind the Bank's bonds but to a very important degree it is developed by a sense of confidence that the money invested is actually being applied to constructive work. There is a widespread supportable conviction that in the past the proceeds of international loans have often been used improperly or wastefully. That has frequently resulted in defaults and ill-will, and a sense of frustration has developed in the entire international financing field. If the Bank's officials in their visits to borrowing countries seem persistent and meticulous in the work that they do in this connection, I urge you to bear in mind the importance of this feature to the successful operation of the Bank.

We have tried to present to you in the Annual Report an objective analysis of the facts as they relate to the task of reconstruc-

tion and development of our member countries. If the Report seems to stress the number of things which have to be accomplished before recovery is effected, and if some of the facts seem rather cold and hard, it is nonetheless important that they should be known and faced. It is a false courage which is engendered from ignorance. On the other hand, we have also tried to do justice to the progress which has already been made in repairing the devastations and disruptions of war and economic upheaval.

As for the Bank's operations themselves, there are several small but significant features from which I think you can derive considerable satisfaction.

Our ability to interest private capital directly in the financing operations of the Bank has been evidenced by the first positive step that we have taken in that direction. In July the Bank sold to ten United States banks, with its guarantee, \$8,100,000 of the shorter maturities of a total of \$12,000,000 of notes of four Dutch shipping companies. These notes were received for loans guaranteed by the Kingdom of The Netherlands for the purchase of six merchant vessels.

The Bank also sold to the Bank for International Settlements an issue of Swiss franc bonds of an aggregate principal amount of 17 million Swiss francs, the proceeds of which were used in the loan to The Netherlands.

The work of the Bank in the development field has made real progress. We have authorized the granting of our first credits for development purposes and several other development loans are in an advanced stage of negotiation. Applications from Latin American countries particularly have greatly increased over the same period last year and the character of the applications and the discussions have narrowed down, I believe, to more constructive and realistic proposals as our conversations have progressed. The variety of the projects presented to us from all over the world is impressive and from the amount of proposed transactions which are now before us, and which we have been told will be put before us, the Bank should be very busy in the coming year.

It is not only, however, in terms of loans made that our progress is measured. A really enormous amount of work has gone into the study of techniques and problems related to development projects as well as the more effective use of guarantees on the part of the Bank, the creation and development of local capital markets, the mobilization for use in Bank loans of capital outside the United States, and constant liaison and discussion with other agencies involved in the same general work as the Bank. The knowledge of the Bank's activities is far wider than it has ever been before and its contacts with both investors and prospective borrowers have been broadened and developed. This work will one day come to fruition.

The Bank is aware of the long-term nature of the task entrusted to it and it is preparing itself to play an increasingly active part in the solution of world economic problems. I think I can say it is the intention of the Bank to maintain the international character of the institution by keeping in close touch with member governments and seeking their views on its problems, to maintain a competent international staff and to acquaint itself thoroughly with the problems of its members and offer objective and competent advice and help. We shall strive to continue to win the

confidence of both investors and borrowers that their legitimate interests will be protected and promoted in all our operations.

It may perhaps fairly be said that those who conceived the Bretton Woods Agreements saw a more distant future more clearly than they did the immediate one. But the present emergency, like all emergencies, will pass and in ten years' time we may be grateful to those who looked so far ahead and created institutions such as the Bank and Fund which we, immersed in our daily concerns, might not have found either the time or the energy to conceive and establish. Imperfect though they are, they are important instruments for international economic aid and collaboration, and even though inadequately equipped to deflect a condition whose dire extent was not foreseen, these institutions do possess great powers and greater potentialities.

In short, I would not hesitate, in spite of the somewhat foreboding character of our Annual Report, to strike an optimistic note to you on behalf of the Directors and Staff of the Bank. I would certainly feel justified in doing so were the world not plagued with the continuance of this knife-edged political situation which in so many ways hampers the full effect of what we do and much that we can be reasonably expected to do.