WORLD BANK

BIBLIOGRAPHIC DATA SHEET

NAME OF COLLECTION: PRESIDENT'S ADDRESS, WORLD BANK ANNUAL MEETING

DATE OF FIRST ADDRESS: May, 1946

LOCATION OF ORIGINAL COLLECTION:

WORLD BANK
Publications Unit
1818 H Street, N.W.
Washington, District of Columbia 20433
United States of America

DATE MICROFILMED: November, 1977

ADDRESS BY MR. JOHN J. McCLOY, PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT IN PRESENTING THE SECOND ANNUAL REPORT OF THE INTERNATIONAL BANK TO THE BOARD OF GOVERNORS AT THE SECOND SESSION, SEPTEMBER 12, 1947.

Gentlemen, I am happy to have the opportunity of presenting to you the Second Annual Report of the International Bank for Reconstruction and Development. I am also glad to be able formally to thank the Chairman, Mr. Dalton, on behalf of the Bank for his words of welcome and the hospitality which he and his country are affording us.

The Report contains what I believe to be a comprehensive and accurate statement of the activities of the Bank since the First Annual Meeting of the Board of Governors, of the more important problems which to-day face the Bank and of our attitude towards those problems.

It would serve no useful purpose for me to repeat here what we have set forth at length in the Report. There are, however, certain aspects of the Bank's activities which I regard as particularly significant, and which I believe deserve discussion at this Meeting.

On the organisational side I am glad to be able to report that the Bank is by now very much a going concern. It is, I believe, an effective and efficient international agency. The staff, recruited from nineteen different nations, represents an aggregation of varied talents and experience. We have former central bank executives, finance ministry officials and private bankers; we have economists who come from government service, from business and from the universities. We come from many different backgrounds and speak many different tongues; but our whole staff shares, I am convinced, a deep loyalty to the Bank and to the purposes for which it was formed.

The Management of the Bank has been given unstinted support and assistance in all its efforts by the Executive Directors. The Directors have devoted their attention to matters of policy and have relegated, I think quite properly, administrative matters to the Management. The line between policy and administration is sometimes not too easy to draw, but suffice it to say the operations of the Bank have been carried out, at least during the period in which my personal experience permits me to testify, in a spirit of mutual co-operation between the Directors and the Staff, which has been most fortunate and helpful. I think I am correct in saying that on all matters which have come before the Board we have thus far never had a division in our voting.

The past year has been an important one in the development of the Bank's policies. We have undertaken our first operations both as borrower and lender, and have begun to build up a policy framework which will give form to our future activities.

The core of that structure is our continuing emphasis on the requirement that loans made by the Bank must be made productive and must relate to well-designed projects of reconstruction and development. That requirement implies many things. It implies that the project or program we help to finance must promise an increase in the level of industrial or agricultural output of the borrowing country. It implies that the proceeds of the loan must be utilised only for the productive purposes for which the loan was granted. It implies that the borrowing country itself must take effective steps, where necessary, to remedy any unsound monetary or budgetary practices which would threaten either the productivity of the loan or the prospects of its repayment.

I think it is fair to say that the very thorough technical investigation of each program or project presented for financing, which is made by the Bank's staff both in Washington and in the prospective borrowing country, provides reasonable assurance that the plans financed by the Bank are inherently sound from an economic standpoint. It is more difficult to speak with confidence when it comes to choosing among several meritorious projects, for here the element of judgement plays such a great part. But our effort has been, and will for the present at least continue to be, to emphasise those projects which promise the greatest increase in productive output in the shortest possible time. I believe that the four loans we have made to date satisfy that test.

In co-operation with the borrowing agencies we have established mechanisms to assure that

the proceeds of our loans are not diverted to purposes other than those for which the loans were granted. This includes not only the meticulous checking of documents of purchase and the like, but also checking on the end use within the borrowing country of the goods purchased with money advanced by the Bank. If we lend money for a railroad, or a coal mine, or a power plant, we wish to see that it is used for that purpose so that we may be able to satisfy ourselves and our investors that it was so employed.

But our technical investigations and our supervision over the application of the proceeds will prove of little value in assuring that our loans will prove productive unless there is a reliable economic base on which to build. Without definite advances toward achieving balanced budgets, sound tax systems and monetary stability there is little hope for the effective employment of the Bank's somewhat limited funds. With such a base there is every hope and prospect that the Bank can make a real contribution to the solution of the post-war reconstruction and development problems.

The responsibility for taking the political decisions required for the achievement of the necessary financial reforms rests with the appropriate officials of the individual nations, but I believe that the Bank, precisely because it is a co-operative international agency, with no interest except the common welfare of its members, will increasingly prove useful as an influence to prompt and perhaps to facilitate the taking of the necessary political steps to bring about economic stability.

Let me make clear that when I emphasise the importance that the Bank's loans prove productive, I am speaking not simply as the head of a banking institution. I am thinking equally of the importance of productive loans from the standpoint of healthy international relations. There are few things which place a greater strain upon friendship between nations than international loans which leave behind merely an obligation to repay, without corresponding benefits to those who must bear the burden of repayment. In such cases, and they have unfortunately not been infrequent, the people of the borrowing country are apt to regard the lender as a foreign ogre of whom the worst can readily be believed. The people of the lending country, on the other hand, when they discover that their own often quite generous instincts are being interpreted as avarice, are apt to become disillusioned and to look with disfavor upon further ventures in the international field. The sum total is impairment rather than improvement of relations within the international community.

I had very close and continuous contact with the American investment community last spring and summer when we were engaged in floating the Bank's first bond issue. I was much impressed by the average investor's desire to help in achieving world recovery, by his willingness to play his part, provided only that he could be convinced that the investment he was asked to make would prove effective. The sale of the Bank's bonds in the teeth of an uninterrupted gale of bad news coming from abroad is, I believe, evidence of that attitude.

Apart from the United States, which has consented to the use of all of its paid-in capital for lending purposes, and Belgium, which has consented to the loan of the equivalent of two million dollars in Belgian francs out of its paid-in capital, none of the other members of the Bank has given permission to the Bank to use for lending purposes the capital which that country has paid in. Thus far the Bank has not sought to market its bonds anywhere except in the United States.

I refer to these facts because they demonstrate why the Bank must attach importance to the views of the American investor and must conduct its activities in such fashion that its bonds will be considered a sound business risk by the United States financial community. This preponderance of the United States as the source of the Bank's lending capital is inherent in the present economic situation of the world. When other investors' money is sought, whatever their nationality, I feel sure they will be no less exacting and no less helpful. We should not think of the investor's interest as being antagonistic to world recovery plans, for it is only as capital is stimulated to move into reconstruction and development that the world can prosper. Moreover, the investor's interest parallels that of the member countries. While perhaps many member countries are potential borrowers from the Bank, all are potentially liable to make good any possible defaults on the Bank's own obligations.

I believe it becomes increasingly the duty of the Bank to consider ways and means whereby, even in this transition period, the currencies of member countries other than the United States may be made available to the Bank for lending

purposes. We do not have unlimited funds to dispense to any nation or enterprise which may be in need. What we have is a sizeable, though limited, borrowing capacity. The Bank's resources are not sufficient to cover immediate global deficits in balances of payments. They cannot satisfy the world's food and fuel shortages. But they can do much in the way of reconstructing and increasing industrial and agricultural capacity and as we help increase production the great deficits which are the result of the unbalance of production will disappear.

I wish that it were possible to outline for you a detailed program of action for the Bank to follow during the forthcoming year. At present, however, the economic and political framework within which we must work is not clear enough to make firm planning possible.

So far as Europe is concerned, the role of the Bank cannot help but be affected by the form, the extent and the timing of any assistance which may be made available under the so-called Marshall Plan. I do not regard the Marshall Plan as a substitute for or as precluding loans by the Bank to the countries participating in the Paris deliberations. To the contrary, any grants or credits which may be made available under any future economic plans and the self-help which may be a concomitant of such plans will most probably tend to make the Bank's loans at once more productive and more appealing, both to our investors and our stockholders.

The loans which have been granted during the past year have all been to European nations. I hope that, by the time of the next annual meeting we can report that loans have been made to a number of non-European countries as well.

We are vitally interested in pushing the development aspect of our responsibilities, for in the very magnitude of the development potentialities of the Bank's members lies the best hope of the world for greater economic well-being in the future.

Despite some of the discouraging aspects of the present situation, it is not cause for despondency that, only two years after the conclusion of the war, greater economic stability has not yet been achieved and much still remains to be done in raising or restoring the standard of living. Reconstruction and development cannot be quickly accomplished after political, economic and human dislocations of the magnitude experienced during the recent war. In many respects, as the Annual Report of the Bank shows, real progress has been made. We are too prone to forget that the devastation and disruption of the Second World War were far more extensive than those of the First World War. Time, hard work and leadership are as necessary as dollars in the repairing of that damage.