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The question I am frequently asked is whether I believe the European Recovery Program will work; that is work in the sense that at the end of the four-year period Europe will be able to fend for itself without further appeals for similar aid from this country. Though I am in no better position to answer this question than many others, and indeed not as well equipped as many, it is probably a fair question to ask of anyone who is a responsible part of an international institution devoted to the objectives of world recovery such as the International Bank.

I have seen figures which purport to prove that the program will succeed and those which purport to prove that the sums are grossly inadequate. Personally, I do not believe either conclusion can be established by figures or statistics. On other occasions I have emphasized the really amazing strides which Europe has already made toward her own rehabilitation since the close of the war. These represent such a significant advance from the rubble of Europe as it was in 1945 that one is encouraged to believe that man's indefatigable urge to repair his fortunes after disaster, coupled with some external aid, does bring very great and very definite results. If one could feel that with continued aid the progress could be as great in the next three years as it has been in the past three the European future would look very healthy. Judged in terms of output and physical capacity, today's figures show that Western European nations have, as a whole, approached if not exceeded their pre-war levels. They have done this in the face of some very severe handicaps; a much disturbed political condition, bad crops and an extremely deep cut in German production which prior to the war was the hub of European economy, indeed, far too much so considering the warped purposes to which Germany applied her economic position. With the diminution of German production the levels of other European countries will probably have to be higher than they were before the war. I venture to suggest, however, that with production increasing in Western Europe, in Eastern Europe, in the United States, and elsewhere throughout the world the production levels which Europe can reach and support with the help of the European Recovery Program are not so vastly above her present levels as sometimes we are prone to think. I do not mean by this to imply that Europe is close to her maximum production figure for all time. For to survive she must, like all the rest of us, expand and improve. But I do mean that based upon sheer productive capacity Europe is not far from her recovery plateau if with outside help her present rate of progress can be maintained. A moderate but substantial German recovery would contribute much to fill existing gaps. An increase in east west trade would also greatly help. But above all these, the growth of a sense of confidence in the European future would put us in closer sight

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of our objectives. Figures cannot gauge that confidence and there are many other imponderables which cannot be measured by statistics. There are forces or attitudes whose effects may well double or treble the worth of the actual material or machinery which this country may send to Western Europe.

If at a given moment the French farmer again gains some confidence in the French franc his goods will flow to the city markets and he will produce and deliver more for sale. If restrictions on trade are removed, if borders are made easier for the business man to cross and recross, trade which is the multiplier of physical capacity, will contribute factors that no figures can faithfully appraise.

The moral is to the physical as 2 to 1. If the pall of war fear can be removed from over Europe and if those who have the chief responsibility for the recovery program, Europeans and Americans alike, are determined to make it work with what they have I venture to predict it will work. With this unprecedented and uniquely generous form of external aid which the Marshall Plan affords the obvious thing is to take hold of it and make it work. With such a boon there is no area left within which one may properly cavil either as to its amount or as to minor crudities of administration.

The war's chief damage was in the destruction of all these imponderables, in the paralysis of the nerves and the sinews of trade rather than in the destruction of property. Property itself can usually be replaced, repaired and restored in a surprisingly brief period, particularly if external aid is at hand to help. As an example of this I think one can point to the restoration of the French railway system after the war. Throughout Europe there are examples of plants which though rated as totally destroyed or nearly so by our Air Forces were again operating at full war capacity within two years of the close of the war.

We can all be sure that in the end some predetermined level or standard of living will not be achieved but this is not the answer. Time alone, without any external aid, would probably bring about some form of economic adjustment but every indication is that if all were left to time to adjust the processes and the result would be too painful to endure without disaster. I firmly believe the European Recovery Program will greatly accelerate the time when an adjustment can be reached and accumulating signs indicate that short of another war that adjustment will reach a level not only enduring but one which will afford real opportunity for the continued economic and cultural development of Europe.

In saying this I, of course, assume an improvement in the German position so that trade with the German area can be stimulated to something well above its present levels and that trade between the Eastern and Western parts of Europe will again take place and in the long run that we can look forward to a re-development of Asiatic trade; the last being an extremely important element to both European and world recovery.

There is one other feature or element in this play of forces that I have rather ignored or taken for granted but it probably embodies the greatest influence of them all. I refer to the position and the example of the United States itself. In every business, in every community, in every group we feel

and are affected by the power of the leadership. At the close of the war the prestige of the United States was enormous. Just at the close of the war I happened to undertake a mission which took me around the entire world. At every shore, and in every clime all hopes were attached to the power and the influence of the United States. I said and felt then that the prestige of the United States was terrifyingly high. Terrifying because so many looked to it for so much. No nation could ever hope by itself to fulfill such an overwhelming accumulation of aspirations and desires. Since then some of those transports have been moderated; fortunately both for the United States as for those who displayed them. But in spite of the reemergence of narrow national and racial prejudices, in spite of the quite malicious propaganda regarding the motives of the United States at home and abroad, in spite of all our own shortcomings, the United States remains today a mighty if somewhat dishevelled leader.

The role of world leadership is not a happy one, particularly in an election year. It exacts a certain behavior of the one who occupies it. In this perturbed world of inflation, restrictive trade regulations, unsound government financing and fiscal systems it is extremely important that the United States with her predominant influence and leadership in all forms of international aid should continue to furnish an example of righteous economic conduct herself. The United States today does nothing which is not reflected in the chancelleries of every country. If our budgets become unbalanced with what force do we speak to the world whose deficit financing we frequently deplore. If we rebuff international trade with what persuasion do we urge a revival of intra-European trade or applaud Mr. Churchill's crusade in support of a European economic and political union. The social, economic and political behavior of the United States over the next four years will as much determine the course of the European recovery as the billions Congress will or can appropriate, and here again we have one of the great imponderables of which figures today cannot give us any reliable gauge.

There was a time when people felt that all the world's economic ills were to be cured through a wise but beneficent distribution of loans on the part of the International Bank. Very fortunately for the Bank and also the world another agency has been created which in public contemplation seems to occupy this hopeful role. This is the European Cooperation Administration. It has and will have very large sums available to it, sums which far exceed any of those which are presently available to the International Bank and they are to be devoted only to the recovery of a relatively small even though important section of the world. It is naturally asked what role the International Bank intends to fill during the operation of the European Recovery Program.

First, let me tell you a little something about how the Bank is organized, how it gets its money, and what its general policies and objectives are. For when these are known it is a rather simple matter to outline what it can do in connection with the European Recovery Program. The International Bank is an institution whose stockholders consist at present of the members of 46 different countries. Its authorized capital is ten billion dollars and its subscribed capital to date is something over eight billion dollars. The capital subscription of each of the countries is divided into three categories. The first 2 percent must be paid by all countries in gold or in dollars. The next 18 percent may be paid at the option of the country involved in its own currency, but it can only be used for lending purposes with the consent of the subscribing country.

The remaining 80 percent of the capital subscription including that of the United States is callable only if it should ever be necessary to meet obligations of the Bank itself. This call must be met in whatever currency it is necessary to obtain in order to make good on the Bank's own obligations. It can never be used for lending purposes. Thus there is a great world guarantee fund behind the obligations of the Bank, and in addition there are, of course, as further security whatever reserves and capital the Bank may accumulate in the course of its operations. Roughly speaking the Bank has had available to it for lending purposes around one billion dollars. This is made up of the 2 percent capital subscription of all the countries plus the 18 percent capital subscription of the United States, this amount having been made available by the consent of the United States for lending purposes plus 250 million dollars which the Bank itself raised through the sale of its securities. There have been minor instances of other countries making available part of their 18 percent for lending purposes but in the main it is the capital subscription of the United States Government which has thus far supplied the working capital of the Bank.

It is obvious that if the Bank is to make a real impression on the recovery needs of the world it must receive most of its money from other than capital subscriptions. This it does through the sale of its bonds in the various capital markets of the world. Thus far the Bank has successfully sold as I have indicated 250 million dollars of its bonds. It has lent or committed to lend 513 millions of dollars and it has presently available some 470 million dollars for lending purposes without further borrowing. In spite of the fact that there are numerous sums and guarantees behind the Bank's obligations the Bank still has to compete with the high grade obligations of governments, and industries, public and private, for the favor of the capital market. It is bound by its Charter to follow certain standards.

Its loans must be productive loans. They must be for things which definitely benefit or improve the economy of the countries involved; there must be a reasonable prospect of repayment and the Bank must be satisfied that the proceeds of the loans are used for the purposes for which the loans were approved. As the sources we have for making loans are dependent upon the confidence of investors, that is to say private investors, so the Bank is designed to stimulate the flow of private investment into productive purposes throughout the world. It is the hope of its management, as well as its definite objective, to have the Bank serve as a bridge between the flow of government and private capital. As I read the Charter, as well as the committee reports and debates in the Congress and the other legislative assemblies of the members which adopted the Charter, the Bank justifies its full existence precisely at the moment when the world (in part at least due to the Bank's efforts) is no longer in need of its services.

As the post-war world developed, due to many causes which it is not necessary to recount tonight, enormous balance of payments deficits arose between the countries in Western Europe and the United States and between each other. These deficits were so great that no institution constituted as the International Bank could possibly cope with them and have any funds available for reconstruction and development either in Europe or in other parts of the world. These deficits were symptoms of fundamental economic disorders and represented trends with which the Bank was never designed to deal, at least single handedly. If the Bank is to maintain the confidence of its investors, to do its duty toward its stockholders, it is necessary that its energies and resources should be devoted to the creation or maintenance of fairly definite productive projects whose output, in whatever form, is something of which the particular country or the world stands in economic need.

With the advent of the European Recovery Program large additional sums were made available which, if providently used, should substantially check if not alter some of the forces which were tending to create this economic imbalance in the world. In large part its funds are made available for the supply of food, fuel, raw materials, for the general rehabilitation of Western European economy. It will also have some funds available for the supply of capital goods and reconstruction items to Western Europe. It is in this latter field that the International Bank wishes particularly to assist and supplement the efforts of the European Recovery Program. The Bank, in the closest cooperation with the European Recovery Program, will continue to search for economically productive projects, which meet its standards and the various countries needs.

The Charter of the Bank requires that its funds be equitably distributed between reconstruction and development. Western Europe is but one part of the world which the Bank serves. There are other areas in which reconstruction is in great need of financing and there are other areas, very large areas, South America, Africa, and the Far and Middle East, which are in need of development financing. The Bank cannot finance all of the worthy projects that exist throughout the world. Indeed there is no single institution or group of institutions that could possibly cope with such a problem. But the Bank can select throughout the various areas projects which give the greatest promise of wide economic value. How much of its funds will be made available for Western Europe it is impossible to say with any degree of exactness. It depends upon many things but the Bank does not intend to withdraw from Western Europe during the course of the European program. The more it can do the greater will be the relief to the American taxpayer. Moreover, I am not unmindful of the fact that the extent to which the European Cooperation Administration makes grants and even loans to Western Europe of sums to be used for productive working capital and machinery, by that much are the loans which the International Bank may make to Western Europe better secured.

We have to date made five loans. Four of these were reconstruction loans in Europe. They were made to France, The Netherlands, Denmark, and Luxembourg. Another was made to Chile for development purposes. To France many items of capital equipment were furnished, including 100 new locomotives for the French National Railways, bulldozers and other types of earth moving equipment for the work on the Genesiat Dam in the Rhone Valley south of the city of Lyon. Fifty new cargo ships were placed in the service of the Dutch merchant marine as a result of the Bank's loan. Agricultural machinery was made available for Denmark; Luxembourg is receiving new steel mill equipment, mainly from Pittsburgh. Many machine tools and other equipment are being purchased in Cincinnati out of funds received from the proceeds of loans from the International Bank. There is no limitation placed upon where the proceeds of the loans may be spent and our records show that the proceeds are, in fact, spent in various parts of the world as well as in the United States. To South America, for example, we can trace something around 50 million dollars of the 300 million dollars which have thus far been drawn down on the Bank's loans.

I shall leave any further questions regarding the organization of the Bank or the types of loans it has made, or its relation to the European program to the question period but speaking of South America I would like to say a word or two about a trip to South America from which I have recently returned. A small group from the Bank visited Colombia, Ecuador, Peru, Chile, Argentina, Brazil, Uruguay, Venezuela and we spoke with representatives of a number of other Latin American countries including Paraguay and Bolivia while we were on the way.

It is difficult, if not impossible, to generalize about a Continent, and one of the chief impressions I received from our trip was the manner in which one country varied from another. If one can dare to generalize it would be to say that all of the countries that we visited seemed particularly alert and sensitive to the needs of their economic development. With all its great advances the Continent as a whole is still largely undeveloped. There is a certain impatience to get on with the development for here, unlike the developments which took place in the North American Continent, steps have to be taken under the intimate knowledge and pressure of what is going on elsewhere in the world. It is pioneering with a radio and a motion picture at hand. The desire to telescope the period of development is apparent and praiseworthy. It may, and probably will, produce economic distortions but the condition remains.

I don't want to give you a travelogue of South America but economically speaking my trip confirmed the fact which I believe most of us have that here is an area both for its own welfare and the welfare of the world should be brought as rapidly as practicable to fuller productivity. It is encouraging to see so many men in the various countries of South America conscious of the economic and social forces that are at work in their respective countries, and the earnestness with which they approach their problems. The problems are serious and complex but with them all there are many energies being applied to their solution.

We found that those responsible were interested in many different types of productive enterprises but certainly in the main they were not laboring under any fantastic development schemes. Officials and others were considering seriously what needed to be done in the way of sound agricultural improvement, port development, communication systems, power projects, and the like. In some of the governments of our member countries in the South American Continent serious consideration was being given to schemes of immigration and settlement whose object would be to receive into their countries from the over populated areas of the European Continent immigrants and settlers of the type who could be relied upon to carve out their homes and their opportunities in new lands. Schemes of this sort in these days require careful preparation and organization and they also require some financing. The North American Continent could and did rely on the natural flow of economic forces to provide settlers. Those who came to Cincinnati after 1848 came largely under their own power. But today dislocations arising from the war and other conditions make it necessary and desirable to assist these forces. It is a field in which much can and should be done, in my judgment, and is one in which the International Bank with the cooperation of the countries involved may be able to help. A discussion of this subject marked one of the most interesting phases of our trip.

Another phase of our South American trip brought to light the great desire, of most of those countries at least, for technical assistance and advice in connection with their development. The Bank has certain facilities which it can make available in this connection and it has many contacts which we are prepared to utilize on behalf of the member countries should they so desire.

It was encouraging also to meet with many who realized the limited role that lending can play in the development of a Continent. Certainly in most, if not in all, countries we visited the greatest interest was shown the discussion of steps that might be taken to induce the flow of capital generally into the area. No Continent can be developed entirely by debt. It takes venture capital as well as investment capital to make a country. To put it another way, I think one can say

that no country was ever satisfactorily developed solely through class triple A investments. It takes some wild-cutting, some speculating, the willingness to take real risks. It requires equity as well as debt financing. Moreover, sole dependence upon governmental grants, public agency lending, is bound in the long run to prove unsatisfactory. Trade and commerce generally does not lend itself to the rigidities of such procedures. A dependence upon legislative wills and political fashions is not a substitute for a wholesome flow of private capital between countries and this is a generalization which is by no means limited to Latin America.

The International Bank is still very young, but it has thus far indulged in considerable lending and some borrowing. Early in its career it has met with a very welcome competitor in terms of the European Cooperation Administration. There are many problems before it but I think it has already afforded to the world an example of an international institution which can apply itself objectively to the solution of some of its members problems. It has day to day tasks to perform and I think if you visited the offices of the Bank you would find little to distinguish it from the interior of other banks or insurance companies, or enterprises which you would be apt to visit in the city of Cincinnati. I think you would be particularly impressed with the staff of the Bank and its directors. They are objective, experienced and knowledgeable about economic and financial matters. Their loyalties are to the Bank and it is rarely that a purely national point of view is expressed in connection with the many international transactions with which they have to deal.

You who are here are presumably interested in the operation of foreign relations. I do not mean to ascribe too much to what the Bank may contribute to the solution of this world's ills but I do believe it has already afforded an example of international dealing which embodies real hope for the future.