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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

November 21, 1952

COOPERATION FOR DEVELOPMENT
BETWEEN PUBLIC AND PRIVATE FINANCE

Excerpts from an address by Robert L. Garner, Vice President
International Bank for Reconstruction and Development,
Washington, D.C.; made before the Finance Conference
of the American Management Association, November
21, at the Hotel Roosevelt, New York City

*See "Reprints" 11/21/52
copy attached*

The World Bank is "helping to set the stage so private investment can step out and play its proper role in world economic development," Robert L. Garner, Vice President of the Bank, said today in an address before the annual finance conference of the American Management Association, at the Hotel Roosevelt, in New York.

He summed up the Bank's accomplishments to date in providing some of the conditions for the growth of private international investment; and he explored the possibility of further encouragement of private investment abroad through the proposed International Finance Corporation.

Mr. Garner explained how the projects financed by the Bank are helping to encourage private initiative by providing some of the basic facilities necessary to the growth of private industry in the less-developed countries. These facilities include power generation and distribution, irrigation, flood control, transportation, communications and equipment for land clearance, improved cultivation, and crop storage. To date the World Bank has loaned about \$1,500,000,000 for some 250 projects located on six continents. Mr. Garner pointed out that the Bank operates on a sound business basis and makes repayable loans, not grants.

In other ways, the Bank helps to create a favorable climate in which private business can prosper. It has assisted its member countries in improving their financial policies and practices; it has made some loans to private power companies; it has participated with private capital in making other loans; and it has lent funds to local investment agencies which, in turn, have made loans to private enterprises.

But, Mr. Garner said, the growth of private investment might be encouraged in a more direct way if public funds could be invested in private ventures by an international institution similar to the World Bank.

The Bank itself is limited in the amount of direct lending to private firms it can do, he explained. In the first place, all of its loans to private firms must be guaranteed by the governments of the countries in which the firms are located. This causes reluctance on the part of governments as well as business organizations. In the second place, he pointed out, the Bank does not make equity investments. "And in underdeveloped as well as developed countries it is equity money that is normally needed for the growth and expansion of private industry," he added.

"The management of the Bank wants to encourage in every way possible the development activities of private business," he said, "and at the same time we are

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keenly aware of the limitations that prevent us from expanding our direct participation in these activities to any marked extent. For these reasons we have been interested in the proposal advanced by the U. S. International Development Advisory Board to establish an International Finance Corporation as an affiliate of the Bank."

The IFC, he explained, would help finance private productive enterprises through equity investments and loans without governmental guarantee. It would be financially separate from the Bank, its capital to be provided by its member countries, subscribing to non-voting stock. The IFC would invest only in partnership with private capital -- either foreign or domestic or a combination of the two -- and would never participate in undertakings for which adequate private capital was available. Management of enterprises would be left in private hands, and the IFC would always take a minority participation. The IFC would attempt to revolve its funds by selling its holdings to private investors whenever it could do so at a fair price.

Mr. Garner said that members of the Bank's staff had discussed the IFC proposal with the business and financial communities here and abroad. Many views have been expressed -- both favorable and unfavorable.

It is not surprising, he said, that the first reaction of many businessmen is skepticism of a proposal whereby a public institution with government capital should make equity investments. A natural reaction is that this is another step towards Government-in-business.

On the other hand, a considerable number have expressed the opinion that there is a need for a source of capital to which American business concerns desiring to establish factories or branches abroad can turn, and that under existing conditions the American market does not provide such capital. This is apparently not true so much of the very large corporations as of those of moderate size.

Furthermore, over the past years, Mr. Garner said, we have had a number of indications that some of these business people would welcome the Bank as a partner because its experience and contacts abroad have given it a familiarity with the conditions in a large number of countries.

The fact that the proposal for the IFC provides that it would take only a minority participation and leave management in private hands, he explained, greatly minimizes the objections to the source of its capital being public funds. Also, the fact that the Bank has demonstrated its ability to conduct its business on businesslike lines, free of political domination, gives many of those who are familiar with its operations confidence that its proposed affiliate would operate on similar principles.

In conclusion Mr. Garner pointed out that to the extent the flow of private capital abroad was increased, many people hoped that the need for United States Government loans and grants might be diminished.

*Address before the Finance Conference of the
American Management Association
New York City
November 21, 1952*

*Reprinted from American Management Association's
Financial Management Series - Number 101*

Cooperation Between Public and Private Finance:

Providing Adequate Capital for Economic Development and Reconstruction in The Foreign Field

¶ **Robert L. Garner**

*Vice President, International Bank for Reconstruction and Development
Washington, D. C.*

THE POSTWAR ATTEMPT to build up the economic and military strength of the countries on this side of the Iron Curtain, in accordance with United States foreign policy, has involved the expenditure in loans and grants of many billions of dollars. While we Americans may disagree to some extent on the amounts of money to be spent abroad and the methods to be used, and while these may consequently be changed from time to time, I think it may be assumed that, as a people, we are firmly behind the current program. Similarly, I believe I am safe in saying that business men are interested in seeing that the necessary financial transactions are handled on as sound and businesslike a basis as possible.

¶ THE AUTHOR

A graduate of Vanderbilt University, Robert L. Garner also studied at the Columbia University School of Journalism. He began work in 1919 in the Educational Department of the Guaranty Trust Company of New York and was subsequently employed as underwriter of foreign and domestic loans with the Guaranty Company, in the Financial De-

partment of the Continental Insurance Company, and again as Assistant Treasurer, Treasurer, and Vice President of the Guaranty Trust Company. Mr. Garner has also served as Financial Vice President and Director of the General Foods Corporation and as a member of the Banking Board of the State of New York. He was appointed to his present position as Vice President of the International Bank in 1947.

The International Bank for Reconstruction and Finance provides a channel through which private capital may be sent abroad to build the basic utilities that will encourage private enterprise. I wish I might think it unnecessary to describe the bank's setup and operations, but it is unfortunately true that most people, unless they have had some reason to study the Bank or come in contact with it, have a rather vague idea of what it is. In fact, it is often confused with the Export-Import Bank in Washington, which is purely a United States Government operation.

ORGANIZATION OF THE WORLD BANK

The World Bank, which is an easier name to remember than the official one, was set up at Bretton Woods before the end of the war as an institution which would be able to supply capital both in countries that had been devastated by the war and in areas that were as yet undeveloped. It was assumed—and this proved to be correct—that private capital would not be available in sufficient amounts for that purpose.

The basic idea, then, was that this bank would provide capital to facilitate projects for which private investment was not available. We are not in competition with private capital. Should it be forthcoming, we do not enter the field. Moreover, our loans were to be made with the understanding that they would be repaid. We are not in the business of making grants or indulging in philanthropy.

The setup that was devised is unique in financial history. Each of the 54 nations which are now members subscribed a certain amount of capital to the bank. The total amount written on the books is about \$9 billion; but, as I shall explain, we do not have \$9 billion to operate with. It was subscribed capital; the various countries participate in relation to their size and economic strength. For instance, the United States has contributed approximately 35 per cent of the capital; the United Kingdom, about 14 per cent; and our smallest country, Panama, about 1/20 of 1 per cent.

Each country paid in 2 per cent of its subscription in cash. We then had \$180,000,000 U. S. dollars, in gold. The next 18 per cent of the subscription was put up in the form of the currency of the country subscribing, but we can use that only with the consent of the country. It is not ours, as is the 2 per cent. In other words, we have \$180,000,000 cash and \$1,600,000,000 in promises. The balance of the \$9 billion is in the nature of a guarantee fund. We shall never have it to lend, but we can call on it if we need it to meet our obligations.

THE AVAILABLE FUNDS

The cash from all the members, plus the full use of the United States' 18 per cent and our profits, has provided us with \$812,000,000. Other countries have allowed us to use parts of their 18 per cent to the equivalent of \$93,000,000, and we have outstanding borrowings of about \$600,000,000, of which by far the largest part has been raised in the United States. However, we have outstanding the equivalent of \$57,000,000 worth of bonds which were sold in Canada, the United Kingdom, and Switzerland, and we have sold from our portfolio—that is, sold some of the loans we have made—to the extent of about \$60,000,000. Most of those loans have been sold to investors with our guarantee, but a few have been sold without it.

It is interesting that, with a fairly moderate cash subscription by the

governments, we have been able to sell our bonds to private investors. These bonds are backed by all our assets and by unqualified call on the various member governments up to the full amount of their 80 per cent subscription if we need it in order to meet our obligations.

To most American investors, the important point is that we have an unqualified call on the Treasury of the United States up to \$2 billion. No further legislation is required. The Treasurer would be compelled to pay us up to that amount, just as a private company would be compelled to pay a maturity of its own bond, if we needed the money to meet our obligations.

With this setup, our bonds have been good investments, and they have been purchased by savings banks, pension trusts, and other groups in this country and elsewhere.

STABILIZING FACTORS

Our authority to call on the unpaid 80 per cent of the capital subscription of the U. S. and other members is very important; without it, we could not sell our bonds. We know that. Because this is a new institution and the world is as unsettled as it is, we need that stand-by. We hope now that we shall not have to use it; and, instead, we are building up our reserves. We have earned \$15,000,000 annually for the past several years, and we expect to earn about \$19,000,000 this year, plus 1 per cent on all our loans, which will be put into reserves. Our reserves now equal \$93,000,000, a comparatively respectable sum for an institution that has been operating for only about five years.

I am confident in saying that we have had a nonpolitical management. We are not governed by political pressure from any government, and we operate in accordance with our best judgment, without being involved in political considerations.

No loan can be made except as it is proposed by the management. It is then put up to the directors, who vote either for or against it. But the directors who are nominated, elected, or appointed by the member governments—and owe their allegiance to those governments—have the final say as to whether we can make a loan. And no country can propose a loan. The loan proposal must come through the management.

It is interesting that our directors act pretty much like corporate directors. We have a pleasant relationship with them, and we work together. They recognize the responsibility of the management, and we recognize their duties and responsibilities.

PRINCIPLES OF LENDING

Now, what exactly do we do? We make loans to governments; or, in case a loan is not to a government, we must have a government guarantee. All our loans are for productive purposes. In five years, they have amounted to \$1½ billion, a total which is made up of 72 separate loans covering 250 separate products in 28 countries on six continents.

Power has been the largest single type of project for which loans have been made. We have provided funds for power production in 16 countries. However, we have also lent money for railways, road construction, communications, land clearance, flood control, irrigation, agriculture, and a variety of industrial purposes. Up to now, all payments have been made

as due on our loans; we have had no defaults or delays to think of.

Our lending principles are the same ones that are applied in Wall Street—except that, dealing with countries abroad, we have certain problems that one doesn't have domestically. First, we appraise both the country and the project, sending qualified people to get the necessary information on the spot. We try to appraise the ability of the country to repay the loan in the currency in which we make it. If we make a loan in dollars, it must be repaid in dollars. If we make it in sterling, it must be repaid in sterling. We try to judge when the country will be able and willing to repay the loan.

We also determine whether the country can put up a considerable percentage of the money for the project. We don't finance all of a project, and in general we finance only imported materials and equipment. The country must pay for local labor and costs of materials. We want to see that it has a stake in the project and that it does all it can to provide for construction.

Furthermore, we want to be convinced that the country has the technical ability to complete the project and to manage it. Sometimes it can do that with local people. Very often, we insist that qualified foreign engineers, construction people, and others be brought in if we don't think facilities are available within the country itself. We must satisfy ourselves that the people who are going to do the job are able to do it.

Finally, we appraise the importance of the project to the country. We want to see that it actually is going to build up the economy of the country. Therefore we stay away from such things as race tracks, fountains, monuments, and presidential palaces—which, I might say, consumed a considerable part of the private loans that were made in the "Gay Twenties." That is one of the reasons why there were so many defaults at that time.

SYSTEM OF CONTROLS

We see that our money is well spent. We never give anybody credit and simply let him draw the money out. We disburse against bills and other documents in just about the same way as a commercial bank, and we check to see that prices, qualities, and the like are satisfactory.

In fact, we go further and see that the money is properly applied abroad. It is very easy to buy a generator, send it to X country, have the construction delayed either from lack of money or lack of proper handling, and see the equipment lie around for four or five years without results. We keep up to date with construction and progress reports, just like any private company. Sometimes we send our own people to check on the work, and sometimes we have resident people—accountants and engineers—watching it. We can say, therefore, that we know the purpose of the loan, what the money went for, and the progress of the project at any time.

So far we have not had any case where a project has fallen down. We have had some delays—everyone does occasionally. But our projects go forward, and we have not had loans diverted away from projects for which we loaned the money. There is reason to hope that our loans will continue to stand up well unless conditions in the world become so bad that most nations will find it impossible to meet their obligations.

Bankers say that the criterion of a good loan is whether the money is well spent. If it is a bad loan, the money is wasted. We are doing our best within our experience and ability to follow that principle.

ADVICE AND ASSISTANCE

In addition to lending, we find we are called on to provide quite a few collateral services, such as making general economic surveys of a country and giving advice about what types of projects would be best for its development. The first one of those surveys was made in Colombia with noteworthy results. Also, in looking at these countries, we have often discussed such subjects as balancing the budget and establishing the economy on a sounder basis. And, to some extent, our advice carries weight with many of them.

As I have said, our loans are largely for basic facilities—power, transportation, anything leading to the better use of the land. I personally regret that so much of the power and so many of the railroads in the world are in governmental hands. I believe in private enterprise, and I think the world would be better off if power projects and the railroads were run privately. But the fact is that they are not privately run in most of the world, and there is not enough private capital throughout the world to expand these facilities at the required rate. And, without the expansion of transportation and power, among other things, private industry in these countries (including mining and agriculture) cannot grow. In a sense, I think, our helping to develop these special facilities is laying the groundwork for an expansion of private activity.

BETTER BUSINESS CLIMATE

Another way in which we are helping in the expansion of private financing and business is in trying to develop a more favorable climate in various parts of the world for private business, whether it is local private business or American or British private business going abroad.

I have already mentioned that our articles prevent us from competing with private capital and that we make no loans which private capital is prepared to make. In addition, we have been able to influence in several cases the settlement, by negotiation, of past bonds that were in default. That helps to restore confidence in the validity of contracts—and we all know that the lack of confidence in obligations is one of the things that the world has been suffering from for some years. When we can get a defaulted foreign debtor to sit down with his creditor and arrive at a negotiated settlement, we have taken a step in the right direction.

We have always tried to influence countries to improve their financial policies in cases where certain regulations make business difficult to conduct, and we are constantly urging governments to abstain from activities that private business can carry on. In short, we are trying in many ways—even including loans to private companies—to assist the growth of private business and private finance.

SOME HANDICAPS

However, to some of us it is disappointing that we have not been able to do more directly to assist in the expansion of private industry, both on its home ground and when it wants to go abroad.

One of the things that has handicapped us is the legal requirement that, if we make a loan to a private enterprise, we must get a government guarantee. Now, many private enterprises do not want to ask for a government guarantee. Also, governments are reluctant to give guarantees. They will do it for utilities which have a monopoly, but it is difficult for a government to give guarantees to one set of business men in the country and not to another. Therefore, the guarantee requirement—which is sound enough in general—limits our ability to encourage private enterprise.

Also, we all know that private business is financed largely by equity capital, not by loans, and we cannot advance equity capital. I regret that up to now we have not been able to be more active in working in actual partnership with private enterprise. First, the private enterprise system as we have developed it in this country is the best hope for economic improvement in the world. The spread of that system, I think, would be a wonderful thing for the economy of the rest of the world. Secondly, since ours is a private enterprise system, it is unfortunate, I believe, that so much of the American money that is loaned abroad has had to go into governmental enterprises and so little into the spreading of the private enterprise system. Thirdly, the expansion of our foreign trade is going to be of greater and greater importance to American business—both in the securing of raw materials from other parts of the world, on which we are becoming more and more dependent, and in the marketing of our manufactured goods.

For these three reasons, I believe it is important that, provided it is on a sound basis, there be an increased flow of private capital abroad.

A SUGGESTED SOLUTION

What more can we do? We have given a good deal of thought to this matter, and we were quite interested when Nelson Rockefeller's committee, the U. S. International Development Advisory Board, suggested in its report in 1951 that an affiliate of the bank—to be called the "International Finance Corporation"—might be set up along the following lines:

The corporation would be under the direction of the bank. It would be in a position to participate with private business in enterprises abroad where the full amount of private capital was not available, and participation might take place either through loans without government guarantee or through equity investments. However, the corporation would never accept a majority ownership. It would operate on a minority participation basis only, leaving the management in private hands, and it would be the policy of the corporation to revolve its funds by selling out either to partners or to other private interests when and if it could be done.

The committee's proposal presents this problem: Capital for the corporation would have to be provided, which, it seems to us, could come at the present time only from governments—the U. S. Government and perhaps a dozen foreign governments. But the proposal would certainly have the effect of putting the bank, through its affiliate, in a position to act in direct partnership with private business.

REACTION TO THE PROPOSAL

Comment from business and financial people and from government circles has been both favorable and unfavorable. First of all, many busi-

ness men feel that this is just another excursion of government into business. On the other hand, there are those who say there should be some source of capital for companies that want to make investments abroad—and, at the present time, the American market does not provide such a source.

The large companies, of course, do not feel this lack, but a great many medium-sized corporations that approach us about the possibility of setting up, say, a new factory abroad ask if there is no way in which we can provide a part of the needed capital. Some of them feel that, while theoretically the bank is a public institution, with government stock in it, the dangers of political interference would be minimized as a practical matter if the proposed corporation would take only a junior position, as suggested. The bank has contacts and experience abroad, they say, which would be helpful in working out projects. But, at the same time, others believe it is not lack of capital but unfavorable business climate that prevents investments abroad.

COOPERATION ESSENTIAL

It really boils down to this, it seems to me: To the extent that it is desirable to try, on a sound business basis, to stimulate the flow of capital, it is better to take a firm attitude and say that we want countries to make it attractive for us to come in.

My own judgment is that the negative attitude does not get us anywhere. The theory that, if we will just sit back, foreign countries will want capital so much that they will do whatever we ask does not seem to work. In the first place, they do not know what to do. Very often, it is not antagonism; it is lack of knowing how to work things out. And we find that we can get things done if we sit down and discuss matters clearly and reasonably.

If we of the World Bank had such a finance corporation and were considering going into partnership with XYZ's corporation and investing in some country, we should want to look at the climate and conditions there just as much as a private investor. Therefore, I do not believe it is a valid criticism to say that our participation would weaken what incentive the country might have to improve its business climate. I think I can add that the experience of the Bank supports my view, for it is fair to say, I believe, that the Bank has helped some of its member countries to improve the situation of private industry.

In Colombia, for example, at about the time we were making our survey there, the Tropical Oil Company's concession expired and reverted to the government. It was not a case of expropriation; it was entirely regular under the terms of the concession. The government proposed to set up a national oil company and operate it, but we advised against that very strongly. I do not say we were altogether responsible, but I think we had some influence in getting the government to sit down with the Tropical Oil Company and make a new operating agreement, under which the company is managing the facilities and building a new refinery. In that case, we saved Colombia from what I think would have been the mistake of going into governmental oil operation, and we enabled a good American corporation to continue a profitable business in that country.

Some people have said that, by getting special favors for companies in which IFC had an interest, we should put other companies doing business in the same country at an unfair disadvantage. That would be true,

certainly, if we asked for special favors for a particular company. We should ask only for fair treatment, because we should expect fair treatment for all private capital in similar conditions.

A PILOT OPERATION

A few hundred million dollars of capital would be required to set up such an affiliate of the bank as was suggested by the Rockefeller committee. That it could not solve all international financial problems is obvious. On the other hand, I think such an effort could be somewhat in the nature of a pilot operation to show what private capital can do in many countries.

I am convinced that management comes before money—whether we are talking about domestic business or foreign business. The thing that is holding back progress in many countries is not lack of money primarily. It is lack of management. If we can spread around the world some of the concepts of modern management, whether in production, merchandising, sales, or pricing policies, I think we shall be striking a great blow for what we believe in and counteracting some of the things that we dislike in the world—perhaps with more effective results than are achieved by many of the other measures that are being taken. Every time a good American business concern goes into a foreign country, it brings something that is valuable to that country.

Take the experience of Sears, Roebuck in Brazil. The company went down there a few years ago with the expectation that it would import about 75 per cent of the goods it sold and manage to get 25 per cent made in the country. It is now buying in Brazil 80 to 85 per cent of the goods sold in its store. It has created industries in Brazil—which, in my opinion, is worth more than a lot of grants and public loans.

A PLAN WORTH TRYING

We are not claiming that the spread of American managerial principles throughout the world would solve all the problems affecting private enterprise and private investment abroad. There would be many other things needed—treaties and tax incentives, perhaps, among others. But the IFC might be a useful tool to try, and it might help a considerable number of private firms that are considering the possibility of expanding their business overseas. And, some people have said, to the extent that we can get private capital flowing, there may be some reduction in the amount of taxpayers' money that is called upon to be disbursed abroad.

The World Bank is not committed to this international finance proposal. We are still in the process of studying it and gathering reactions to it. But we should be willing, if there is enough sentiment in favor of our trying it out, to see whether it would work. Possibly it could perform a service to some sections of business, and it might lead to a freeing and opening-up of opportunities throughout the world.

I do not think it will assure peace. Everybody, of course, wants peace, but peace is hard to get. However, the plan could help, I believe, to strengthen the economic soundness of various parts of the world and would at least be a step away from the troubled state that we are now facing.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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10/15/52 - 50C
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HOLD FOR RELEASE

FOR THE PRESS

in A.M. Newspapers of Tuesday,
October 21, 1952.

Excerpts from an Address by Robert L. Garner, Vice President of the
International Bank for Reconstruction and Development, before the
Dallas Council on World Affairs, Monday, Oct. 20, 1952

These are critical times -- big issues are facing us. They are not going to be solved by a few offices in Washington, or Paris, or New Delhi. They are going to be solved by the people of free nations. I don't mean that large groups of people can know the details. But they make the broad choices: slavery or freedom; war or peace; squalor or economic progress.

* * *

This Dallas Council on World Affairs is living proof that a whole community can be alive to what's going on in the world. You are not only aware of the issues -- you can help shape them. This is heartening. Let me tell you another heartening thing: whole communities, whole areas in many corners of the earth are becoming alive to the important issues of the day. I know this, because I have visited about 25 different countries in connection with my job.

* * *

I want to talk to you tonight about something positive. Something that is of importance to this city, state, nation -- and to the free world. For want of a better name it is called "economic development." It is the positive program which holds the hope of eliminating poverty and backwardness in underdeveloped areas of the world, getting rid of the rotten earth in which Communism breeds.

* * *

Americans have always wanted to extend a helping hand; of course we must take our share of responsibility. That goes with leadership. But there is certainly a point beyond which we should not strain our economy -- in the interest of ourselves or anyone else. We must follow policies which in the long run will be to our interests. That's why I think this question of world economic development is so important. It is a means by which undeveloped countries can learn to stand on their own feet. And the United States, the greatest industrial country in the world, will increasingly need the raw materials and the markets which development brings. As an American, I am interested in world economic development because it is in the best interests of America.

* * *

"Economic development" is all too dull a name for this movement which is beginning to make headway in underdeveloped countries. But the tangible facts of the matter are not dull to the people of these countries. Let me assure you that a new electric power dam, a new railroad, or an irrigation ditch which can make a desert bloom -- these are as exciting to people in many parts of the world as a

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presidential election is to us. You in Texas know what I mean . . . by "development." You should! It's making the most of your resources; it's the drive that brings you a better material life. It also brings more: self-confidence, individual initiative, solid accomplishment. That is what is beginning to happen in some of these undeveloped countries.

* * *

The World Bank is just what it sounds like. It is a bank: and its stockholders are 54 different nations. Like any bank, its principal job is to make loans. We also give our member countries many different kinds of technical advice and assistance, because it is just as important to know how to use money effectively, as to get money in the first place. Let me make one thing about the World Bank clear -- and this surprises many people: The Bank makes net earnings. It is an international organization, but it is unique among such organizations in that it operates at a profit. The Bank operates under its own steam. It pays its own way. Originally the U. S. Government, like all member governments, subscribed to the Bank's capital stock. But the Bank is not now dependent on any appropriations from any government. We do not operate on taxpayers money.

* * *

The best way to tell you about how the Bank stimulates economic development is to look at four typical World Bank loans and see what they are doing -- one, a loan to assist agriculture, another transportation, another electric power, and the fourth to assist a country's broad development program. (Mr. Garner described loans to Pakistan, Colombia, India, and the Belgian Congo.)

* * *

I have chosen these four loans as examples of what we are doing, by and large, throughout the world. So far we have loaned a total of about \$1-1/2 billion -- for some 250 projects and programs located on six continents.

* * *

The equipment which our loans are financing comes from manufacturers in many different countries. Most of it comes from the United States. You will be interested to know what equipment has come from Texas. Manufacturers in Texas have supplied such key equipment as: penstocks and steam pipes for power plants; fir poles for power transmission lines; trucks, tractors, and a variety of parts for aircraft. Right here in the city of Dallas, businesses have supplied: structural steel and splitting saws for heavy construction; rings, pistons and machine tools for industry. Texas manufacturers have filled orders totaling more than \$2 million for equipment financed under World Bank loans.

* * *

Possibly another step would be to make loans to a larger unit than an individual country. Of course nobody can foresee the details at this stage. But I am thinking of a new kind of international authority such as the one being set up in Europe under the Shumann Plan. This may open opportunities for making sound loans which would increase coal and steel production of a continent.

* * *

Because of the great importance of getting private capital moving into development channels, we were asked by the Rockefeller Committee to work up a plan for a new body to encourage private investment. It's known as the International Finance Corporation. It would participate with private investors in equity financing and in making loans to private companies abroad without it being necessary for the foreign government to guarantee the loan. This proposed International Finance Corporation would succeed or fail according to the degree of support it received from private investors. Its whole purpose would be to give them what they want -- more confidence in investing in development projects. Before making further proposals, we are getting their reactions.

* * *

I want to close on this thought: The World Bank is only one instrument to encourage world economic development. It is giving, I think, concrete assistance -- something you can put your finger on. But the main job must be done by the undeveloped countries themselves. By their own sweat and by their own enthusiasm and vision. We are trying to help them in a way which builds not only dams or railroads; but which builds also, and mainly, self-reliance and the strength to be free.

* * *

Garner, Robert L.

SUMMARY OF
THE DISCUSSIONS:

Pacific Coast Conference

on PRIVATE

INVESTMENT *in*

INTERNATIONAL

DEVELOPMENT

San Francisco • September 24-25, 1952

International Development Advisory Board
Eric Johnston, Chairman

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Robert P. Daniel, President, Virginia State College
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Introduction

Point Four is a program of action in support of the foreign economic policy of the United States.

It is a two-pronged attack upon economic and social stagnation in the less developed countries of the free world.

It seeks, through direct governmental action, to help the peoples of those countries acquire the technical skills they need to improve standards of public health and education, increase productivity, and utilize to the full their own human and material resources.

At the same time, it seeks, through the investment of private capital in those countries, to broaden the groundwork of industrial development so vital to solid economic growth and stability.

It was this latter facet of the Point Four idea that gave rise to the Pacific Coast Conference on Private Investment in International Development.

The Conference grew out of an invitation extended to the International Development Advisory Board by leading San Francisco business and civic organizations interested in the investment phase of the Point Four Program. These organizations, headed by the San Francisco Chamber of Commerce, sponsored the Conference in cooperation with the Advisory Board, the Technical Cooperation Administration of the Department of State, and the United States Department of Commerce.

The purpose of the Conference was to bring together three groups of people who look at the matter of American investment abroad from somewhat different points of view: the businessman interested in opportunities for productive investment in foreign lands; spokesmen for other countries which are receptive to American capital; and representatives of the United States Government who deal, directly or indirectly, with foreign investment in the framework of Point Four.

The meeting was exploratory. It adopted no resolutions, made no specific recommendations. But it did bring out significant points bearing on the attitudes of potential investors, foreign governments, and the Government of the United States. Several useful suggestions were made for stimulating a greater volume of American investment abroad. Several such suggestions are already being tried.

Perhaps the most important result of the Conference, however, was the fact that, when it was over, there was a sizable body of evidence that members of the business community of the West Coast understood Point Four far better and were able to perceive the implications of the Program for themselves far more clearly than when the Conference began.

General Summary

The most significant feature of the Conference was the way in which the idea of partnership emerged as its central theme. The fact that this idea came into prominence through a process of free-for-all discussion was evidence both of the wholesome spontaneity that characterized the meetings and the fundamental importance of the idea itself. Neither in the statement issued in advance of the meetings nor in the published program did the word "partnership" appear. Yet those in attendance agreed, when the sessions were over, that the proceedings were appropriately summarized by the San Francisco *Chronicle* under the headline "Point Four Program and the Partnership Approach—U.S. Capital Must Recognize National Sentiments."

In his summation of the discussions, the General Chairman of the Conference, Charles L. Wheeler, of the International Development Advisory Board, said: "United States investors recognize that national sentiments must be taken into account. American capital is prepared to accept the partnership approach."

The word "partnership" was used by some speakers with reference to all joint efforts to improve conditions in economically less developed countries. It was pointed out that, even in cases where the United States contributed the assistance of technicians and made grants-in-aid for equipment to support their work, the emphasis is on self-help; and the countries concerned, in accordance with this principle, are always expected to put more into the program themselves than they receive from us. In a more limited sense—its legal sense—the word "partnership" also occurred time and again when the employment of United States capital in business enterprises abroad was under discussion. With every shade of meaning between the broadest and the narrowest, the key word "partnership" kept constantly recurring.

In spite of this agreement on the approach that should be taken in the promotion of international development, there was no attempt by any of the speakers to disguise the fact that in putting the partnership principle into actual operation there were many practical difficulties to be overcome.

In opening the Conference, Eric Johnston, Chairman of the International Development Advisory Board, stressed the fact that its purpose

was not to enumerate or lament these difficulties but to draw from the experience of those taking part ideas that would point the way to positive methods of dealing with them. It was not intended that this Conference, the first of a series planned by the International Development Advisory Board, should result in the acceptance of any agreed conclusions, or the formulation of any specific recommendations, but rather that it should serve as a forum for the presentation of constructive suggestions and the consideration of them from different points of view.

The great increases in material production and in general welfare which could be expected to result from the use in the developing countries of more advanced techniques and more capital were taken for granted. No doubts were raised by any of the speakers about the possibilities which exist for enormous gains to be made along these lines. The basic question to which the Conference addressed itself was: How can mutually satisfactory arrangements be worked out for the attainment and the sharing of the potential benefits?

It was recognized that the people of this country have a very real interest in the improvement of conditions in other areas. This was seen to arise not only from good will we feel towards those at present less well off than ourselves but also from a recognition of our interdependence with all other countries of the free world in meeting the challenge of communism. We wish to see the democratic social system prove, as quickly as possible, its all-around superiority. We recognize the part which the growing economic strength of the free world can play in deterring not only the spread of Communist ideology but actual aggression.

Various speakers stressed, in addition, the increasing dependence of the United States on imported raw materials. These were accepted as obvious reasons why, quite aside from direct returns in the form of profits, it must be part of our national policy to help other countries in their efforts to improve their economic status.

Just back from an extended tour of 29 of the 33 Point Four nations of the world, Stanley Andrews, Technical Cooperation Administration Administrator, said the results of American efforts thus far in these countries were encouraging in spite of a "not too rosy" picture from the stand-

point of "growing nationalism" and currency troubles in many countries. In Bolivia, he said, the Export-Import Bank has facilitated the investment of 28 million dollars for a highway which will open up an area "as big as Texas" and that many opportunities for private investment exist there. In Peru, he reported, scientists are successfully battling jungle country for development of agricultural land, and in Burma engineers are now surveying the possibilities for large projects ranging all the way from paper making (from bamboo) to mining.

"In all these countries," Mr. Andrews concluded, "we are approaching, and must continue to approach, the people in a spirit of wanting to work with them and to stick with them. That spirit will bring great returns for American investment and be a good thing for the world."

The technical-assistance program as it is being carried on in the fields of agriculture, sanitation, and education met with general approval, but in regard to the methods it would be best to employ in pushing forward other phases of the program, wide differences of opinion were frankly expressed. These differences related mainly to the roles which speakers were inclined to assign to private business, to national governments, and to international agencies. The fact was squarely faced that the same basic problems which arise internally in any one country with regard to the division of economic returns between capital and labor and with regard to government participation in economic affairs were naturally present in an aggravated form when the capital and enterprise involved come from abroad into a country whose background of experience and whose present circumstances are markedly different from our own.

Speakers from Colombia were able to point out that their country and a number of others had enough confidence in the benefits they would get from free enterprise and from foreign capital to leave the door to investment wide open. It was agreed that the situations in these countries could be looked on as enlightening and encouraging examples, but no pretense was made that they were typical.

Cipriano Restrepo-Jaramillo, Colombian Ambassador to the United States, said foreign capital could be invested in his country with the understanding that it had the right to make a profit "by working for and with the country." He emphasized his nation did not want grants. Martin del Corral, president of the Bank of Bogotá, said private initiative and management were essential to the future of his nation.

Mario A. Mera, president of APICUE (the Uruguayan-American Chamber of Commerce,

Montevideo), told the Conference that Uruguay has no income tax and promised "fair and prompt" payment in the event of nationalization of foreign holdings.

Antonio Carillo Flores, General Director Nacional Financiera, of Mexico, said: "Foreign capital will receive a fair deal when it obeys the laws of our country." He stipulated that a condition of dollar investments in Mexico would require it to compete with domestic capital. Flores observed that he did not think American capital was very anxious to go to Mexico unless it received special treatment.

Recognition was given in the discussions to two facts of particular significance in their effects on the international movement of capital: first, that strong feelings exist in most of the developing countries favoring the control of economic enterprises by their own nationals, the use of their natural resources for the development of domestic industries, and the fostering of other industries capable of supplying goods previously imported from abroad; second, that, in these countries, governments tend to go further than our own in the direct operation of economic enterprises (particularly those concerned with the provision of transportation and power) and in the regulation of business activity generally, while doing less to provide the stable framework of laws and institutions which would enable private enterprises to function most effectively.

Some business spokesmen seemed to be convinced that the best results would be obtained at the end if the underdeveloped areas were simply allowed to discover through experience how much they would gain by making conditions attractive for foreign capital. More of them, however, were of the opinion that the process could be helpfully speeded up by the adoption of a firmer position on the matter by the State Department.

A substantial number felt that the practice of giving Government loans and grants to foreign countries lessened their dependence on private capital and thus encouraged them to maintain a more uncompromising attitude than it would be possible for them to take without such aid. On the other side of the argument, it was pointed out that, in the postwar period, the needs of certain countries for resources in excess of what they were able to produce for themselves or finance in ordinary ways were so pressing that emergency measures were called for. Note was also made of the fact that in some of the less developed areas progress might be found to depend on the availability of capital for such basic purposes as the building of roads, and yet no possibility might exist of their

obtaining the necessary funds on a commercial basis.

The consensus clearly was that, although Government assistance might still have to be provided in certain exceptional cases, the largest possible proportion of the capital moving abroad from now on should come from private sources.

Against this background analysis of the over-all problems, it became clear that the flow of capital to foreign countries in the immediate future would depend to a large extent on the effectiveness of the machinery available to mobilize private investment resources for this purpose and to facilitate their movement abroad. It was a business representative who called attention to the fact that our direct foreign investments are mainly of two types: (1) in oil and in other extractive industries; (2) in plants set up to make products for which markets had been previously developed through our export trade. Reference was also made to the way in which the International Bank for Reconstruction and Development was able to raise private capital by the sale of its bonds in this country and to make use of the funds thus collected in helping to finance railroads and public works in areas where a sound business basis for such developments existed.

Robert L. Garner, Vice President, International Bank for Reconstruction and Development, emphasized that such loans are made to accomplish "only the minimum" required to pave the way for future investments by private capital. He said power and transportation, the two chief fields in which loans are made, are such huge projects that usually private enterprise cannot handle them. In these cases, he said, governmental loans fill the gap.

Albert J. Redway, Chief, Private Capital Participation Division, Export-Import Bank of Washington, added that the first question always asked by the Export-Import Bank is: Can the money be obtained from private sources? If not, then the Bank steps in. "The Bank's function," he said, "is completely in your [businessmen's] interest . . . to help in situations where you cannot proceed."

Further discussion revealed the disturbing fact that capital needed by developing countries in other sectors of their economies was much more difficult to obtain. Lack of information on the part of United States investors about the opportunities to put their capital to work in these countries with advantage to themselves was recognized to be one of the basic reasons for this. Businessmen on the spot were urged to assist in appraising

and making known the possibilities for profitable investments in lines other than their own, and individuals or groups traveling abroad were urged to make their visits long enough to provide a basis for similar judgments. Attention was also called to the large amount of information on tap in the Department of Commerce, which could be used to good advantage by prospective investors.

Several speakers urged that as an incentive to foreign investment United States taxes on the earnings from them should be reduced or removed. In this connection L. Laszlo Ecker-Racz, Director of the Tax Advisory Staff of the U.S. Treasury Department, said his agency is currently "pushing ten or twelve tax treaties, some of which have been in negotiation for years," which, if consummated, would create a more favorable tax climate. As for domestic legislation in this matter, he pointed to certain tax exemptions which have recently been made for technicians who go abroad to work. He also said there is now under consideration by the Congress legislation designed to extend to corporations a taxation rule which heretofore has been applied only to subsidiaries, i. e., earnings abroad shall not be taxed until they are brought back to the United States.

Some of those attending the Conference were optimistic about the likelihood of the problems being solved by efforts to stimulate individual interest and initiative in these ways. Others argued that these efforts could not be expected to accomplish what is needed without some further development of the institutional machinery for handling international capital movements. Particularly urgent, in the opinion of many, is the establishment of an International Finance Corporation of the type proposed in the report of the International Development Advisory Board, entitled *Partners in Progress*, and subsequently recommended by the United Nations.

In his summation at the close of the Conference, Mr. Wheeler stressed the following points:

1. United States capital is moving in substantial quantities to areas where conditions are favorable.
2. The experience of American firms abroad in developing competence of local staffs is highly encouraging.
3. American investors are recognizing the value of first-hand acquaintance with conditions in lands where they might invest. Visits should be long enough and should be taken seriously enough to provide a firm grasp of relevant facts.
4. As grants-in-aid end, a greatly increased flow of investment capital is needed to provide dollar purchasing power abroad to avoid a sharp fall in trade.

5. The imported raw materials need of the United States is great and increasing, making more critical the need for investment abroad to turn the supply of raw materials toward the domestic industrial machine.

6. Present United States tax policy on business earnings from abroad affords no real incentive to foreign investment. Further concessions (exemptions) might represent less public cost than Government loans or grants.

Excerpts From the Principal Speeches

Opening Address by Eric Johnston

Chairman, International Development Advisory Board

You represent the social force that built America—the creative power of American free enterprise that made possible the American achievement. That force, with its vast resources of experience, capital, and skill, must now be put to work to help give economic strength and vitality to the community of free peoples who share our belief in the dignity of man.

We know that communism thrives on misery. But it starves on progress. We must starve it to death in every corner of the still free world.

Many people seem to regard the Point Four Program as another "Government give-away," or as an adventure in "global do-gooding." Somehow the idea has got about that it is an expensive system of generous handouts to indigent nations, from whom we may expect nothing in return but re-creation and dislike. But Point Four is none of these things, I assure you. Indeed, I think it is inaccurate even to consider it a Government program, for it is considerably more than merely that.

Point Four, it seems to me, is an idea as big and as broad as American life itself. It is the idea that the people of the United States, through their own democratic institutions, *private* as well as public, can help the less advanced nations of the free world to develop their human and material resources as we have developed ours.

Point Four, as spelled out by Congress in the Act for International Development, clearly recognizes the traditional spheres of activity reserved in our system for public and private initiative. Government activities under the act have been directed primarily toward the job of helping underdeveloped peoples to increase their production of food and to improve their levels of education and public health. These certainly are legitimate functions for Government, in line with our basic conception of the respective spheres of public and private action.

And, also in line with that conception, Point Four relies upon the initiative and imagination of private capital for the enormous task of industrial and commercial development which must be accom-

plished before the underdeveloped nations can be said to have achieved a solid base of economic and social stability. It does this wisely, in my opinion, because, in the long run, only the continuous flow of private investment capital into sound and productive undertakings in these countries—undertakings profitable to the country itself as well as to the investor—can do the job that must be done.

Our purpose at this meeting is to examine the part of private capital in the performance of that task. First of all, I suggest that we assume that we all know about the obstacles to a larger flow of investment capital to the underdeveloped areas. I hope that we will concern ourselves this afternoon and tomorrow with the problem of finding out how to break these barriers down, or surmount them, or get around them in one way or another. Let us start out with the attitude that nothing is impossible. The situation calls for imagination and resourcefulness.

Second, I propose the empirical approach. We are after practical, workable solutions. I believe we shall find many of them in the experience of hundreds of investors who have found it possible and profitable, despite the obstacles, to establish successful operations in many countries of the free world.

Third, I would suggest that we regard the United States Government as a willing partner in the search for ways and means of facilitating foreign investment. It is the policy of the Government, clearly expressed in the Act for International Development, to encourage private enterprise to invest in the underdeveloped countries; and I can assure you that the agencies of Government concerned are eager to provide every measure of encouragement within their power.

Finally, with respect to our discussions at this Conference, I hope we will undertake to learn and understand the point of view of some of the countries whose development means so much to the security and prosperity of the free world. From those countries, at our invitation, have come representatives of government and of business to discuss with you the nature of their own problems and the opportunities open to American capital.

One can only hazard a guess at the amount of private capital we might reasonably expect to send abroad annually. As a possible yardstick, how-

ever, we might consider the fact that Great Britain, at the height of her world economic power, sent as much as 21½ percent of her national income into foreign investment. Two percent of our own national income today would exceed 5 billion dollars, but even such an optimist as I would scarcely hope that the total will reach that figure. But it would seem to be apparent that American industry should be able to put a far larger stake into the industrial development of the less advanced countries of the world than it is now investing.

The opportunities are abundant. The profit potential is good. In many of these countries, such as India, Pakistan, and Colombia, for example, the climate for foreign investment is good or steadily improving as the result of deliberate efforts to attract development capital from abroad. Even where the climate is reported to be less favorable, American concerns appear to be operating successfully.

I am convinced that we are on the threshold of an era of industrial statesmanship that will see American enterprise at work throughout the world in new patterns of cooperation with the capital of other nations. Those patterns are already beginning to emerge from the experience of imaginative and constructive American industrialists who have found that partnership with the enterprise of other lands produces not only profits but friends. And in a politically bipolar world, the friendship and confidence that grows from working and building together for mutual benefit and the common good is more important to us than ever before. It can be the strongest of the nails that holds the structure of the free world together.

One of the realities of our time pertains directly and immediately to the future of American industry itself. It seems to me to remove the whole question of foreign investment from the realm of the desirable into the realm of the essential. That reality is our growing dependence upon foreign sources for the supply of raw materials essential to the continued expansion of our own economy.

It now requires something like 21½ billion tons of raw materials to feed the gigantic maw of our industrial machine, according to the [Paley] Report.¹ By 1975 it probably will take double that amount. Technology, conservation, and development of new domestic sources will help to keep pace with this enormous growing appetite, but they will not be enough. The sober fact is that we must seek abroad for an ever-increasing proportion of the essential ingredients of our indus-

¹ This five-volume report, *Resources for Freedom*, was made in 1952 by the President's Materials Policy Commission, of which William S. Paley is Chairman.

trial production. Our ability to maintain the level of our own economy depends on how successfully we are able to find and develop new sources of raw materials supply. In other words, gentlemen, the chips are down. If there is a question of incentive, it can no longer be phrased solely in terms of the obligations of world leadership or of moral responsibility for the less fortunate peoples of other lands. Our own economic self-interest has become inextricably bound up with theirs.

Let me try to sum up the situation as I see it:

In the free world there are a billion people just emerging from centuries of social lethargy. They are the people of the ancient lands of Asia, Africa, and the Middle East, whose aspirations for a better life have produced the cataclysmic social upheavals which rock those regions of the world today. They are the people, also, of the young lands of Latin America, sensitive of their independence and eager for growth.

These billion people want a greater share of the fruits of progress and enlightenment in the modern world, and we have the capacity to help them get it. They, in turn, have the capacity to help us. They own the sources of raw materials supply on which our industrial economy increasingly depends. More than that, they are a vast potential market for the produce of our industry.

What we do to help them will determine their ability to help us; how we go about it will determine their willingness. We must consider their interests on an equal basis with our own, in a relationship of partnership and mutuality. They can be our friends; today they look to us for leadership and aid in the enormous tasks confronting them. If we fail them, they may turn tomorrow to our enemies.

That brings me to the point I made when I began. Whether we fail them depends upon the willingness of American private enterprise to turn the key of economic development and progress for these lands. If we fail them, we shall have also failed ourselves.

Progress Report on Point Four

by Stanley Andrews, Administrator,
Technical Cooperation Administration

In many sections of the world where the people do not have our tradition of mercantilism and capitalism, they are hesitant to invest in their own production, rather than in trade and barter, the things they have been accustomed to.

We must help them to overcome that hesitancy. I feel that private capital should be prepared to

do 90 percent of the job. This will get things started. Let me offer some examples:

The General Shoe Company of Nashville, Tenn., went into Israel with equipment. The Israeli Government provided land and buildings and owns 51 percent. The regular monthly wage is \$160, but on a piecework basis some of the 230 employees earn up to \$300 a month. And with just one American in charge, the employees, many of whom spoke different languages, came in 6 months' time to within 4 percent of the normal United States rate of shoe production.

The Technical Cooperation Administration has about 1,350 in 35 countries helping local people in agriculture, health, education, transport, and other fields. This work is making real progress.

But there is a growing, aggressive nationalism sweeping these countries, and there are currency troubles because the people are trying to go too far too fast.

We have got to work with the people as partners, and I think the countries themselves are going to determine the conditions. With a little patience and diligence, we can really go to town.

In Bolivia the Export-Import Bank has lent 20 million dollars for a highway that will open up an area as big as Texas. It has never been developed before. In Burma an American engineering firm is working with Burmese to develop manufacturing projects, such as paper from bamboo.

An example of how Point Four agricultural experimentation leads to commercial and industrial activity is the Kenaf project in Cuba. The Point Four technical missions there are hard-pressed to keep up with the industrial interest in the fiber.

Kenaf is being developed as a substitute for jute fiber which is produced in the Far East.

At present the chief difficulties in producing Kenaf are insect and disease threats to the plant and the high cost of extracting the fiber. Both of these problems are being solved. A disease-resistant strain has been developed. One company alone is investing \$500,000 in a mechanical process for extracting the fiber.

In Cuba, particularly, the heartening fact is that both local and foreign capital is being employed in cooperation. A pattern of contracting for the raw material from small farmers is also developing.

In sum, Point Four will accomplish very little without the aid of private capital and especially the employment of local capital in the area being developed.

Here's How It Looks to Us

by J. L. Camp, Assistant Director of Foreign Operations, International Harvester Company

The large corporations and banks which have been operating foreign branches and affiliates for many years have become accustomed to the numerous problems that constantly arise in connection with business in one country or another. Such problems include shortage of dollar exchange, laws controlling dividend remittances, social legislation adversely affecting profits, ultranationalistic measures designed to discourage foreign investment and in some cases even expropriation.

Companies like International Harvester endeavor to analyze carefully every known factor before approaching new projects. Even if such preliminary investigations indicate that the investment abroad would be attractive, we must always remember there is a great element of calculated risk involved.

Far be it from me to say that these obstacles are not terrifically discouraging, but the point I would like to make is that the seasoned export executive, who supervises numerous operations around the world, does not permit them to obscure his vision of the over-all possibilities that foreign investments offer, both in increased sales volume and attractive profits.

We would certainly welcome a better investment climate in many countries. We would also welcome any accomplishments that might be made by governments, including our own, toward lifting the ever-increasing restrictions on world trade and profitable international operations. The management of International Harvester is dedicated to keeping our company international, as its name implies.

Like most similar companies, our foreign investments originated with the shipping abroad of products manufactured in the United States. If goods manufactured in the United States could be marketed through distributors . . . ; such an arrangement has always been considered most desirable. However, in many countries there have been times when it was impossible to contract with local firms having enough capital, organization, and know-how to get the proper market participation. Confronted with a situation of this kind, it has been customary to begin studies on whether an affiliate should be organized for the purpose of marketing Harvester products. If the management decided to make the investment, the necessary money has been made available, together with American experts in different phases of the business, such as accounting, sales, service, and spare parts.

The bulk of the organization has been hired in the foreign country, and this, as you can imagine, immediately has presented the problem of training new personnel, most of whom possibly have had no previous experience whatsoever with our goods, policies, or procedures.

It might interest you to know that without exception we have been successful in building organizations abroad just as loyal, hard working, and efficient as we have in the United States. The American know-how is not difficult to teach, and we have found that within a few years after the formation of the affiliate, local nationals are able to take over many of the key positions, permitting the return to the United States or transfer to other affiliates of some of the American managerial staff originally sent to get the business established.

Very often within a few years after the formation of a marketing affiliate, it is found that there are numerous reasons for expanding the operation into local manufacture and/or local purchase. These factors include embargoes against importing certain types of American products, high customs duties, shortage of dollar exchange, local availability of cheap raw material and labor, and, possibly the most important of all, local demand for sufficient quantities of particular and specialized machines to make their manufacture profitable.

When we build a factory the same procedure is followed as in setting up a marketing operation. A few American engineers, cost accountants, and manufacturing experts build an organization from scratch, although most of these Americans eventually are replaced by people they have trained. Today Harvester owns foreign factories in France, England, Germany, Sweden, Canada, Mexico, Brazil, and Australia and also owns sales affiliates in 19 foreign countries. We feel that these affiliates have served to raise the standard of living and improve the economies in each of the countries in which they operate.

A few years ago we built a small implement plant at Saltillo, Mexico. This little city of 60,000 people previous to that time had never had any industry comparable to our factory. The buildings were designed with all the modern conveniences. Floors were covered with hard wood blocks for the comfort of the laborers, and light and air were given special attention. Lavatories, locker rooms, and hot showers were of the latest American design. Now please bear in mind that practically none of these conveniences was required by law, but our management feels that we should be at the head of the parade in these things instead of just doing no more than is required by local standards. The happiness and productiveness of the labor at

Saltillo has adequately compensated the Mexican affiliate for the extra expense.

The plant produces principally small horse-drawn tools, which are no longer required by farmers in the United States. A steel walkin plow, however, to a small Mexican farmer is a great technological improvement over the wooden contraption which he was using previously. There is no doubt in our minds but what the standard of living in Saltillo has improved, that Mexican agriculture has benefited, and that the entire economy of the country is better for our having built Saltillo works.

Our foreign investment, we believe, also includes the men we have sent abroad to train farmers in modern agricultural methods and in the proper use and maintenance of the machinery. Such men are located not only in the countries where there are affiliates but also in many of those where the marketing is done by distributors.

You might be interested to know that all Harvester men abroad are instructed to cooperate closely with the people of the Technical Cooperation Administration, the Mutual Security Agency, American embassies, and any other individuals or entities whose mission is to improve the standard of living and the economies of underdeveloped nations. In some instances International Harvester has even gone beyond what would normally be considered as services directly connected with the sale of the products we manufacture. For example, before the Communists took over China we financed the establishment of four chairs of agricultural engineering at the University of Nanking and sent outstanding American professors there to fill the positions. At the same time 25 scholarships were financed for young Chinese agricultural engineers to study in the United States.

A couple of years ago the agricultural specialist from our Australian company spent several months in the Philippines, helping the Agriculture Department lay out and organize a large rice-growing project. A few months ago we did a similar job in Indonesia, where the problem was that of developing new land in Sumatra to which some of the overcrowded people of Java could be moved. In the last couple of months one of our agricultural specialists has been working with the local government of one of the more underdeveloped countries on erosion control and reclamation of land heretofore impossible to cultivate. We consider all of these to be foreign investments.

It seems to me that one of the prime objectives of organizations like the International Development Advisory Board, foreign trade groups, foreign governments, and those agencies of the U.S.

Government interested in stimulating additional investment abroad is to carry out an extensive educational campaign on the true opportunities which exist for American investors in overseas developments.

I personally have never believed that the proper approach is for the American Government to guarantee private capital against expropriation or other losses abroad. In the first place, from some experiments in that direction, it appears doubtful that such a guarantee would result in much foreign investment. Secondly, that policy tends to break down all the work which we are doing in selling the world on the benefits of competition and free enterprise.

I do not remember attending a single foreign business meeting during the past few years at which the phrase "favorable investment climate" was not repeated by several of those present. However, one does wonder whether American Government representatives abroad and those in this country who deal with foreign missions have done everything possible to convince the representatives of governments interested in obtaining private American money that a favorable investment climate is of prime importance. Possibly some of our own Government people are not themselves sold on the idea. The reason I make this statement is because progress in the desired direction seems to be much slower than should be expected if everyone concerned thoroughly understood the facts.

Latin America Today as a Field for Investment

*by John Abbink, Investment Counselor,
Drumm and Abbink*

The President's Materials Policy Commission pointed out in June of this year that currently something over one-third the value of the part of our gross national product made of metal represents imported minerals. By 1975, the Commission experts estimated, the figure would rise to 55 percent, more than half, due to depletion of sub-soil resources in the United States.

The report poses a serious problem with which industry and government in this country will have to deal over the next few years. The expansion of our economy requires raw materials and especially minerals in abundance. They can be supplied from natural sources; or substitutes for them must be found. Latin America has many of the minerals

our industrial machine requires. The question is: Does Latin America wish to make them available on a basis that the people of the United States will consider equitable? Or will the decision be that the development of substitutes and synthetics in our research institutions is more likely to cost less in the long run?

Latin America has ambitious plans for development, but the word "development" has a different connotation there than it does in this country. In Latin America development means not so much the provision of raw materials for export but complete local fabrication of the articles people use and wear and eat that are made of these raw materials. For instance, availability of imported finished copper products at many times the price paid per pound for the partially refined raw metal exported from Chilean mines makes no appeal to the "Chileno."

These two aspects of the principal economic problem in the Western Hemisphere—need for raw materials in the North and desire for development in the South—seem superficially to be easy of solution. Actually they are not, because they are more dissimilar than they appear to be.

Extraction of raw materials requires great amounts of capital for expensive equipment, concentrated in large units often established in remote areas and not easily movable. The proportion of wages to total value in the resultant product is usually small and the economic benefit to the host country hard to demonstrate. Fabrication of these raw materials, on the other hand, demands relatively smaller amounts of capital to provide machinery that can usually be moved, employs more workers per unit of output, and produces articles that go directly into the market place, thus providing tangible evidence of local benefit.

Just as there are essential differences between the products of extractive and fabricating industries in Latin America, so are their problems varied. The chief danger to the raw-materials producer has always been and still remains that of expropriation, or its more subtle twin, confiscation, which results from deliberate or short-sighted regulation and is often the fate of public-utility enterprises. The announcement by the Peron-inspired Paz Estenssoro, usurper of the presidency in Bolivia, that the tin-mining industry is to be seized by October 1 awakens grim recollections of the oil controversy in Mexico 15 years ago and must discourage every friend of Latin America in this country. It suggests that Bolivia will cut as little figure in world tin production in the future as Mexico now does in supplying petroleum, despite the brash agreement by an Argentine group to erect a tin smelter in La Paz. Argentina at present

possesses neither the capital nor the technical skills to make good on this offer extended, I am sure, to complicate a settlement of the controversy.

The recent threat by Chile to embargo shipments of raw copper unless a larger proportion was set aside for sale by the Chilean Government in "free world markets," which is a euphemism for the world black market that has existed for some years in this commodity, is another instance of the threat to raw-materials producers in Latin America.

For several years now my associate and I have been urging United States interests which have huge investments in Latin America in operations of this type to recognize their vulnerability and to do something positive about it themselves, rather than to rely negatively on diplomatic intercession, which has proven ineffective. One such plan is the use of smelter gasses for the production of fertilizer, badly needed everywhere in Latin America. Another is the encouragement of local capital to join in, and eventually to own completely, an enterprise to fabricate copper products, not only to satisfy the demands in the producing country but for export to neighboring countries. Still another is an offer to make engineers and technicians from their local operating staffs available at stated intervals, say once a week, for consultation with and advice to local entrepreneurs and small business establishments which have difficulty in obtaining this type of help. A mechanical engineer or chemist in an oil company in Venezuela, for instance, could be of great help in solving simple problems in neighborhood plants too small to be able to afford the fees consulting engineers must charge.

Several of these suggestions are now being implemented. Had they been in effect from the very inception of these extractive ventures in Latin America, political opportunists would have a much more difficult time in promoting expropriation or confiscation. Their cost is a fraction of the amounts investors must spend to protect their interests once the threat to expropriate becomes reality. They aid in promoting an atmosphere of community cooperation and help to dispel subversive charges of completely selfish depletion of local resources.

Problems of investors in the kind of development Latin America *wants* are of a different nature entirely. In a report prepared last year by the National Industrial Conference Board, Inc., for the President's Committee for Financing Foreign Trade and based on replies from interests both large and small comprising about 55 percent of total investment in Latin America in this type of enterprise, the following chief obstacles to

development financing in the area were cited in the order of their importance.

1. *Export or Import Quotas.* Investments in manufacturing in Latin America by United States interests usually begin by the assembly of imported components. Their very existence depends upon a steady flow of these parts from mass production lines in the United States, established to reduce costs. To decide arbitrarily and at an uninformed political level that these components must be produced locally by setting quotas for imports often raises costs, reduces quality, and inhibits growth. In some instances import quotas have forced abandonment of the enterprise.

2. *Limitation on Remittances of Profits.* The theory is widely held in Latin American political circles that limiting the transfer of profits will induce diversification of investment into unrelated fields. This notion disregards entirely the circumstance of stockholder responsibility, with which corporate executives in the United States are faced, and results not in added investment but in sterile bank balances that contribute to inflation and promote unorthodox financial transactions.

3. *Burden of Social Security Legislation.* The desire for old age security is universal, but in some parts of Latin America it has become an obsession. One company representing United States investment in Latin America estimates the burden of social legislation to be 38 percent on wages and 12 percent of salary payments, a major item of operating costs. It should be added, however, that this burden falls equally upon enterprises locally capitalized, though companies may not always be as meticulous in conforming with established regulations as are those representing overseas investment.

4. *Control of Capital Movements.* This obstacle is usually an extension of the theory on limitation of remittance of earnings, and it serves to repel rather than to attract investment. It is justifiable for the control of speculative funds but discourages legitimate business transactions.

5. *Multiple Exchange Rates.* This is a device in the political control of finance that has been tried in many countries and has always created more problems than it solved. Hitler's Germany is its most conspicuous modern example, and several Latin American countries have been experimenting with it. Unhappily, the Brazilian Congress is now debating a measure that would not only create multiple rates of exchange but also provide unwise measures for the transfer of capital and rigidly limit remittances of profits. If the bill passes, it will prove a severe hindrance to Brazilian development.

6. *Lack of Trained Native Personnel.* Emotional nationalism in Latin America is chiefly responsible for this obstacle, which assumes that an inadequately prepared artisan or technician can improvise his way into complicated industrial processes. It arises from the higher rates of compensation commanded by more competent and more experienced employees from overseas and results in rigid immigration regulations.

7. *Lack of Transportation Facilities.*

8. *Inadequate Power Supply.*

I group these two obstacles because they both result from the fact that, until recently, all transportation and power-producing equipment in Latin America was imported. There were no local sources of supply for rails, locomotives and cars, trucks, or generating and distribution equipment. Some progress has been made to overcome this deficiency during the past few years in several Latin American countries, though the facilities established are not yet adequate.

It is particularly noteworthy that inadequate transportation and power facilities combined—problems to the solution of which most of our public funds and technical assistance are now being devoted in Latin America—are represented in this report as being less of an obstacle than either the quota question or the limitation on the remittance of profits. Note also that the six most important obstacles cited arise not specifically from meager financial resources but, directly or indirectly, from ill-advised social and political considerations. The fear of expropriation or confiscation does not appear to be a decisive factor in the type of investment Latin America has indicated she wants.

Reflecting on the situation with regard to investments in Latin America, as expressed in these obstacles cited by investors themselves, tends inevitably to the conclusion that our approach to the solution of economic problems of the hemisphere needs more forthright leadership than it recently has had. Individual investors are helpless in opposing misguided political trends. Even as a group they need the sympathetic and thoroughly understanding assistance of all the force officialdom can muster in overcoming the important, rather than the relatively unimportant, roadblocks to economic development. In no area of our top-level foreign policy planning has sterility of thought been so manifest as it has in our hemisphere approach. Observers both in Latin America and in this country have commented on the change in the official attitude of the United States that has taken place since the war, lending sub-

stance to the impression in Latin America that we are friends only when we need friendship. Solution of political and economic problems in other parts of the world will prove an empty triumph indeed if it comes at the expense of disorganization in the Western Hemisphere.

I suggest that the occasion for a more forthright approach to the solution of hemisphere economic problems might be the meeting next year of the tenth inter-American conference, which is sponsored by the Organization of American States and which is scheduled to convene in Caracas late in 1953. Effective leadership by the United States in this conference, if adequate preliminary preparations were made, could go far toward redressing a situation which seems to be getting out of hand.

The idea of tax abatement on corporate investment overseas is not completely new. Britain has employed it for years as a stimulant to private foreign investment, as have other European countries. As concrete evidence of the desire on the part of the United States for development in Latin America, I suggest, moreover, that our delegates to this conference be authorized, after consultation with the appropriate congressional committees, to offer complete abatement of taxes on United States corporate investments in Latin America under certain circumstances. In return for this tax concession we must negotiate, country by country, and could obtain from most of them, I feel sure, procedures which might not entirely eliminate the evil of expropriation but would assure more equitable treatment than our investors now receive over the whole range of obstacles to investment in Latin America that arise from political considerations.

Abatement of taxes in the United States on income derived from corporate Latin American investments would stimulate private enterprise in the development of the hemisphere and be concrete evidence of the sincerity of official pronouncements on the issue of private versus public financing. Only industry itself in the United States can fulfill the desires of Latin America for industrial development; no government of which I know has any competence in this field. In spite of my admiration for the Point Four Program as a statesmanlike concept, I submit that it will fall far short unless private industrial enterprise is invited to take its proper place. Inability to provide the kind of assistance overseas countries want most, help for industrialization, illustrates the essential weakness of the present Point Four organization. In spite of the congressional mandate in the Point Four legislation, that the assistance of private enterprise must be sought and encouraged, little has

been done to satisfy the overseas desire for industrialization beyond the perfunctory establishment of an industry division.

A whole year may be too long to wait in demonstrating to Latin America that we have a sympathetic interest in her desire for industrialization. In the interim, I suggest we take advantage of an asset that is available to us now. In every country in Latin America there is a group of men representing United States business interests. Many of them have spent their entire business careers in the area. Often they know local conditions better than our diplomatic representatives do, because they are not transferred so frequently. Moreover, they have been thoroughly trained in the techniques of business in the United States and are able instinctively to analyze business opportunities and pitfalls which sometimes escape a political officer.

Organization of a small committee of such men in each Latin American country, to which local requests for industrial help could be referred for recommendations, would provide help beyond anything that has been available thus far in technical cooperation. Their decisions need not be final, but their assistance could be invaluable if only to insure that proposals are made in terms that permit intelligent and definitive analysis.

Preliminary discussion and advice from local groups of engineers and administrators trained in the United States would eliminate much of the frustration and disappointment that is the experience now of Latin Americans interested in industrial development. Once a project had passed this local screening it is probable that members of such committees could suggest investors, individual or corporate, who could provide industrial technical assistance on a royalty or partnership basis. Advisory committees, made up of United States industrialists resident in each country under the chairmanship of the Technical Assistance representative, if he is capable, would help to fill a serious gap that now exists in the Point Four Program.

If this presentation of Latin America as a field for investment seems weighted on the side of pessimism, I assure you that is not my intent. The opportunities are there, in spite of obstacles that have been permitted to grow until they obscure constructive circumstances. The United States needs Latin America as an ally, as a supplier, and as a market just as badly as Latin America needs help for development. Faced with this premise, men of determination and good will on both sides of the Rio Grande will find a way of mutually advantageous cooperation, unless they are deliberately held in check.

Oil Exploration and Development

by J. T. Duce, Vice President, Arabian-American Oil Company

We are discussing today Point Four. The concept is not new; it was simply given greater force and clarity by President Truman in his inaugural address some 4 years ago. But it is an old concept of which there are many examples about the world. It is peculiarly American in that it shows our faith in the American system—faith in the ability of man, given the opportunity to improve himself, to conquer his environment and to make the world better for having passed through it.

Let us go back some 35 years ago. The great war those days had made plain one thing—that national defense of the future was tied closely to the new engines powered by oil and its products. The planes and the tanks, the trucks and the cars were to furnish the motive power of war and, by relieving man of some of the limitations of time and space, were to change the world. The oil companies were urged to search to the ends of the earth for oil for tomorrow.

It seemed to me a patriotic endeavor and it had other rewards than the purely financial ones, for when one found oil in foreign countries it was often where the people were desperately poor.

With the advent of the American oil men, new towns arose, sanitary methods were introduced, wages were raised, and life expectancy rose. However, the search was not easy.

I well remember Barranca Bermeja in the Magdalena River Valley, amid its swamps and jungles. Of the people who lived there, all had malaria and hookworm. Wages were 50 cents per day. Life expectancy was only 33 years. Many of my American friends did not believe that a large producing and refining operation could be carried on in such a place. A great oil executive told me no man could build pipelines through those swamps. But the geologists found a great anticline—the job of finding oil was done; the swamps were oiled, and the malarial mosquito vanquished. Men were cured of their hookworm; wages were raised, and men trained in the modern mechanical skills. Homes and hospitals were built, and the pesthole became the healthiest town in the lower Magdalena Valley, while the oil came down the Andean pipeline to the sea and into the trade of the world.

I have seen many similar things happen about the globe—in the swamps of Venezuela, in the deserts of Peru, in the Near East, and in the jungles of Sumatra.

In 1933 on the desolate and sun-swept coast of Al Hasa, some four Americans landed. The coast had a reputation for fierce inhospitality, coupled

with a ruthless climate. Its diseases were hunger and malaria.

It is now some 20 years later, and the basic wage in Al Hasa has multiplied 10 times, hospitals have been constructed, 20 thousand people find employment, new and sanitary towns have sprung up, railroads and ports have been built, the burdens of Government financing have been eased, and this year the Government of the desert Kingdom of Saudi Arabia relieved the pilgrims to Mecca of the dues which they have paid from time immemorial. Further, thousands of men have been instructed in all sorts of trades and arts and have taken those skills into the remote parts of King Ibn Saud's desert kingdom. And the process has just begun.

What has this cost the United States Government? It was alleged by some imaginative gentleman that the United States Government had spent 100 million dollars in Saudi Arabia. This, of course, included loans which have since been repaid and advances by the British Government. But let us suppose, by stretching our imaginations, we could conclude this figure was right. The United States Government has already received more than this in taxes. So this is Point Four without benefit of aid from that much overburdened person, the United States taxpayer.

Opportunities and Problems

y S. Amjad Ali, President, United Nations Economic and Social Council, and Managing Director, Pakistan Development Board

It would be no exaggeration to say that peace and war, recession and full employment, human rights and dignity are interrelated with the development of underdeveloped countries.

Most of the countries in Southeast Asia were until recently under foreign domination. European rulers tried to develop these countries during their sovereignty. Initially this development, by and large, was to provide raw material for manufacturers in their own countries. Ports and communication systems were established to facilitate the export of their materials and the import of consumer goods. In the beginning of the century some consumer goods industries were established by private enterprise of the ruling countries. A number of textile mills, cigarette factories, oil mills, and the like came into existence. On the agricultural side impetus was given to increase the production of raw materials, some of which were required by the ruling countries—rubber in Malaya; tea in India, Pakistan, and Ceylon; cinchona

in Indonesia. It would be unfair not to acknowledge the fact that countries like mine did benefit from such development.

After World War I the flow of private capital to the countries of southeast Asia was not of the same volume as in the prewar period. After World War II the flow of private capital from Europe dropped down to a trickle. As regards American private capital, the volume, compared to that of European private capital, has been smaller still. This, of course, does not include investment in oil, which is certainly not an investment for purely commercial purposes.

Most of the countries of Southeast Asia have attempted, on a cooperative basis, to initiate a development plan. This plan has now taken the name of the Colombo Plan. The countries of Asia which are participating in the Plan now include Ceylon, Cambodia, India, Pakistan, Nepal, Vietnam, and the United Kingdom territories of Malaya, Singapore, Sarawak, and British Borneo. Non-Asian participants are Australia, Canada, New Zealand, the United Kingdom, and the United States.

Development programs have been prepared by Ceylon, India, Pakistan, and the United Kingdom territories. These countries have about one-third of the entire population of Asia and about one-half the Asian population outside of the Chinese mainland. The programs were first submitted in late 1950 and have since been considerably revised and are still in the process of revision. The original estimates of the total cost of the development programs in the public sector for Ceylon, India, and Pakistan and for Malaya and British Borneo was 5.2 billion dollars over a 6-year period. Of the combined total cost, about one-third was for agriculture, another third for transport and communication, 6 percent for fuel and power, 10 percent for mining and industry, and 18 percent for social services. It has been quite apparent that the Colombo Plan is a very modest effort to achieve economic development for the areas participating in the Plan. It has also been agreed that the underdeveloped countries in this Plan cannot find the finances from their own resources even to complete this modest Plan. This is more true today than it was a year ago, when prices of commodities were high and the foreign-exchange earnings and revenues of these countries were higher than what they were before the advent of the Korean war. Since October last year the fall in prices of raw materials has considerably reduced the foreign-exchange earnings of these countries and has also affected the revenue incomes. Consequently, these countries do not have the same amounts, either in for-

eign exchange or in internal currencies, which they had last year for development purposes.

I would not attempt to narrate the opportunities which are available in the countries of Southeast Asia for foreign investment. The Colombo Plan reports give in detail the targets set by each country. The industries include manufacture of textiles, chemicals, cement, paper, cardboard, leather, jute, mining, fisheries, steel, and nonferrous metals.

Indonesia has first to reconstruct its damaged industries and then utilize its great natural resources. This country offers many opportunities to develop a number of industries . . .

Opportunities in the Middle East for investment are vast and diverse. The development of oil needs no amplification. I would, however, mention that the Middle East exported 18.3 percent of the world's crude petroleum in 1950, excluding Russia, but its people are still living at a very low standard. The average per capita income for the population of some hundreds of millions is around \$90, as compared with the world average of about \$230. I would also like to mention that there is a vast scope for utilization of byproducts of the petroleum industry which may be engaging the attention of the oil companies working in these areas, but so far very little has emerged in a tangible shape.

Egypt has developed its agriculture to a remarkable degree. The yield of cotton in this country is, I believe, one of the highest in the world. Along with its agriculture it has also developed certain industries such as textiles, cement, chemicals, food processing, and cigarettes. Egypt, apart from its resources of oil, also has certain minerals such as phosphate rock, low-grade manganese ore, and iron ore. The exploitation of these wait the availability of finance and know-how. Egypt is a very large importer of fertilizers, and although it has a phosphate factory, still it has to import an equivalent quantity of about 50,000 tons a year for its farmers. Sugar production in the country is about 200,000 tons a year, and still Egypt imports from abroad. Apart from possibilities of fertilizer; iron, copper, sugar industries, canned food and fishing industries are also available for investment.

Syria also offers opportunities of further development in canning, tanning leather, and cold-storage industries. The right type of grass is available for paper mills, and the Government is anxious to develop this industry.

Iraq is engaged in flood control to extend the area of cultivation. It has also other schemes to utilize its waters for the purposes of hydroelectric power and irrigation. Fertilizer, cement, sul-

fur, and carbon black are industries which require development; the raw materials are available. Certain consumer-goods industries, such as soap and glass, are badly needed. There are deposits of copper, iron, zinc, chrome, and salt, but it requires further investigation to ascertain the quantity and quality before they can be commercially exploited. Saudi Arabia's oil is a proven source of wealth, but its mineral wealth is still untapped and offers great opportunities to private enterprise.

Iran is associated largely with oil wells and carpets, but there are possibilities in this country which have remained unexplored up to the present time. The Government of Iran had engaged a well-known firm of American consultants who have produced voluminous reports on the possibilities and potentialities of industrial development. Textiles, cement, sugar, chemicals, iron and steel, and minerals are all there to be developed.

Afghanistan is building new highways, a dam for irrigation, and generating hydroelectric power. Its mineral wealth needs exploration and exploitation.

By far the most important aspect of development in Asia and the Middle East is the development of agriculture. There is more scope in this field, and improvement would show quicker results than in any other field. Most of the progressive countries of Europe went over from bullock to horse and from horse to tractor. We are still in the bullock stage of agriculture. I have advocated on a number of occasions that a detailed study is required to ascertain in what spheres of agriculture a change can be made so as to reach the ultimate goal of the tractor. In my country the tractors now being used are all imported, including every spare part and implement. Apart from other things, and even if the other problems related to the change over could be solved, such as employment of labor released on account of mechanized agriculture, larger holdings, and so forth, the question of finding foreign exchange to import all components of agricultural machinery is not easy. Private enterprise could take an initiative in this respect.

The general belief of manufacturers of the West is that they have produced agricultural machinery after years of research and study which should be suitable to conditions anywhere in the world. I do not agree with this point of view, for I believe that modifications are very necessary to suit different conditions. Mechanized farming in all its operations is economic in the United States or Canada, but the question is: Up to what point would it be economic in Asia with cheap labor, little know-how, high cost of repairs and replacements,

inadequate foreign exchange, high cost of oil, and small holdings? It is therefore necessary to study up to what point initially the introduction of mechanized farming would be economic and, also, what particular types of tractors and implements would be suitable for the areas concerned. Private enterprise could study the problems of mechanized farming related to the conditions in the East and with their vast experience and up-to-date know-how evolve equipment which would be economically suited to those conditions.

Most of the areas in the East have natural resources for the manufacture of fertilizers. There is a great need of fertilizers, and here again private enterprise can successfully operate in manufacturing fertilizer and thereby help the increase in the yields of agricultural produce.

The evolution of machinery in industrial countries has been to a very great extent directed towards two factors: firstly, to reduce the cost of labor and, secondly, to increase output. It is, of course, obvious that to produce cheap cloth a big textile mill is necessary, and we, in Pakistan, have trebled our spindles within 5 years. The employment of labor, however, is not correspondingly high. The industries which are developed do not and would not employ all the surplus labor available; therefore, whereas industrialization will provide goods for the people, such as textiles, it is necessary, indeed imperative, that the surplus available labor must be put to work.

This, to my mind, can only be done economically if small and simple units of machinery are installed in villages throughout the East. Compared to highly developed units they may not sound economical, but when the factor of labor costs and low capital outlay is considered it may become economical, because the peoples in villages would be working these machines in their spare time, and, furthermore, no housing, and so forth, would be required for them.

I once again repeat that the most important problem in the densely populated East is the use of its peoples for productive purposes. In a free society this is the most difficult thing to achieve. But it has to be achieved if this free society is to live and continue. This should not be viewed with any apprehension by manufacturers in other parts of the world. This utilization of labor is not to compete in the free markets of the world but to increase productivity in the country and achieve some sort of living standard for its peoples.

In 1949 the Government of Pakistan established an Industrial Finance Corporation to provide loans to existing industries for their expansion. This corporation was also financed by Government, with 9 million dollars as capital. The board of this

corporation is manned by businessmen and bankers. Late last year the Government created the Pakistan Industrial Development Corporation. This corporation was brought into being to promote industrial development. The Industrial Finance Corporation was only limited to financing existing industries or their expansion, and the finance was provided in the shape of loans. The Industrial Development Corporation was to participate with private enterprise in equity capital. The Government, realizing the slow pace of industrial development and in certain industries seeing little progress, felt the necessity of creating this corporation so as to promote such industries and also provide incentive to private enterprise. For instance, East Pakistan has very large forests of bamboo, which were examined by two firms of consultants from Sweden and Canada and proved ideal for the manufacture of paper. No private concern was prepared to undertake the establishment of a paper mill, and so Government decided to embark on this venture. This paper mill is now being built. The company is being managed by the Pakistan Development Corporation, and the shareholding so far is entirely Government. It is, however, hoped that some of the shares will be taken up by the public as soon as the paper mill starts to function, which is expected to be early next year.

Pakistan grows 75 percent of the jute of the world. It did not have a single spindle to convert this jute into either burlap or jute bags. The high prices of jute manufacture were of great alarm and concern to my Government. This level of high prices was encouraging the use of substitutes, and therefore the Pakistan Government considered it imperative to protect its jute growers by establishing a jute industry in the country. Ten millions are engaged in the cultivation of jute, and therefore it was highly desirable that this sole means of livelihood of so many millions of its inhabitants should be safeguarded. There was very little response from private investors, except one family which came forward to put up a jute mill. Since the creation of the corporation a number of private firms have entered into agreement with the corporation to start jute mills. One private concern has subscribed 50 percent of 20 million dollars' total capital. The corporation had underwritten 50 percent out of which 25 percent has been invested by the public. The management of this concern is in the hands of the private firm who has subscribed 50 percent of the capital. Similar arrangements have been entered into with other private concerns who are managing the jute mills, although as much as 50 percent, in some cases, is the shareholding of the corporation, which

is Government money. This is not restricted only to the jute industry; the corporation also provided similar finances in case of cement and chemical industries.

Wherever private enterprise is willing to start an industry but cannot do so with its own or private investment resources, the corporation comes forward to subscribe part of the capital. The policy of the Government and of the corporation is to liquidate its holdings in the companies where it has participated as soon as private investment is available. The money so recovered would go to finance other industrial enterprises. So far the commitments of the corporation are to the magnitude of 75 million dollars. This figure does not include plans but projects which are materializing and for which the machinery has been ordered.

The Pakistan Development Corporation is also negotiating with foreign companies to establish ship repair, machine tool, and pharmaceutical industries. Generally the arrangements are that the foreign concern finds the machinery which is their part of the shareholding in the company, and the corporation finds the local expenditure which constitutes their part of the shareholding. The management is left in the hands of the foreign concern, but the corporation has representation on the Board of Directors, reflecting the percentage of its holding in the company. I could also cite a few examples where private interests have gone into partnership with foreign concerns without the help of the Government or the corporation. My own family has participated with the well-known firm of Lever Brothers in the manufacture of soap and edible oils. The management is with Lever Brothers, and we have representation on the Board of Directors.

It will, therefore, be observed that Pakistan has demonstrated in actual practice the desire to encourage foreign private investment. This is not only confined to Pakistan. Ceylon and India have similar concerns where foreign and indigenous capital has gone into partnership and established industries.

Put in simple words, what the countries in the East require is industrialization and investment of foreign capital but with the paramount, overriding consideration that the best interests of the country should come first, not those of the foreign investors. This does not mean that foreign investment should be philanthropic or should not derive legitimate profits. Most of the countries in the East would like participation of indigenous capital with foreign investment. They would guarantee the remittance of dividends. They would also assure the remittance of capital if the investment is purchased by local interests, this depending on

the economic conditions of the country at that time. Perhaps it would be difficult for a country to allow export of the equivalent of the foreign capital invested in one year, but the country could certainly be in a position to permit the remittance if spread over a period of years.

In regard to nationalization, most of the countries in the East have defined the fields of state and private enterprise. Utility services, such as railways, telegraph, telephone and radio, are in most countries state-owned enterprises. Hydro-electric installations, again, in most countries are in the hands of private capital; in others state-owned. The defense and armament-producing factories are mostly state-owned. A vast field of industries other than I have mentioned are left to private enterprise. The apprehension of nationalization is therefore greatly minimized in view of the spheres having been divided among state-owned and private enterprise. In certain countries, like my own, where private capital is not available the state has taken the initiative to set up industries with Government capital, but the policy is to reduce the holding of the Government when private capital is available and to completely hand over to private enterprise when private capital is in a position to take over the industry.

Almost all the countries in the Middle East and the Far East have given their attention to the improvement of the living conditions of their peoples. It is more true in the case of the countries like mine who have enjoyed independence since 1947. The peoples of these countries rightly expect freedom from want and hunger, along with the freedom which has come to them politically. The governments of these countries, since their independence, have striven in this direction. National planning and efforts to mobilize indigenous capital have been their first consideration. They have simultaneously tried to stimulate international organizations like the United Nations, the International Bank, and the International Monetary Fund to help them in their efforts of economic development. They have also approached the developed countries bilaterally to extend their facilities of know-how and finance, to accelerate the pace of development. The Colombo Plan is the result of such a corporate effort on the part of the members of the Commonwealth and the United States.

I would like to emphasize that most governments, in spite of the limited resources at their disposal, are doing all they can to ameliorate the living conditions of their masses. They are fully alive to the fact that it is the responsibility of the country to make every effort it is capable of and not look to outside help for this development. But

it is a task beyond their resources. With no foreign investment the peoples of Asia will be poorer than they are today. Believe me when I tell you that they are very poor. When a child in winter cannot leave the family bed until the sun is out and can provide warmth for its naked body, poverty has reached its lowest ebb.

It is, therefore, apparent that if the peoples of the underdeveloped countries are to have enough to eat and some clothing and better housing, greater efforts will have to be made in accelerating economic development.

Appreciating these facts, the majority of the members of the United Nations came to the conclusion that the efforts of the International Bank to finance development should be supplemented by other finance-providing institutions. After years of study and discussion, two proposals have emerged which I would like to mention. The first is to provide international machinery to encourage private investment in underdeveloped countries. This proposal has taken the shape of the International Finance Corporation. The second proposal, which is still in its embryonic form, is the International Fund. It was felt by the majority of the members of the United Nations that an International Fund is required for the purpose of providing grants-in-aid and low-interest, long-term loans to underdeveloped countries in order to help them to accelerate their economic development and to

finance non-self-liquidating projects which are basic to their economic development. The Economic and Social Council appointed in June this year a committee of nine to draw blueprints of this International Fund and submit it next year to the Council.

The International Finance Corporation was originally advocated by the International Development Advisory Board in the report, *Partners in Progress*. It was adopted by the United Nations, and the International Bank for Reconstruction and Development was asked to formulate a detailed proposal and submit it for the consideration of the Economic and Social Council. The Bank submitted the proposal in the shape of a document which was examined by the Council in June of this year. The Council has requested the Bank to prepare a blueprint, consult its member governments and other interests who are concerned with the flow of private capital to underdeveloped countries, and report to the Economic and Social Council the progress which it has made in this direction.

The establishment of this Corporation should provide opportunities to private investors who are now hesitant to move to far-away countries. The international character of this Corporation should be an added safeguard to private investors, and I hope that the investment community in this country will lend its support for the early establishment of the International Finance Corporation.

Outline of Mr. Garner's Lecture at Graduate School of Banking,
American Bankers Association, Rutgers University (June 23, 1952)

1. What the Bank is

(Refer to booklet)

2. The Bank's Six-Year Record

a) Carrying out our main purposes

Reconstruction -- the first job

(Early reconstruction loans were blood transfusion to Europe at critical time. Europe also needed emergency Marshall aid of different type than Bank was created to furnish.)

Development -- the job of the present and future

(Economic development major factor in world today. To industrialized nations it means way of ensuring necessary raw materials, markets; to undeveloped areas it means rising production, living standards, possibly entire economic future. To free world it means added strength, stability, growth, Bank concentrating on assisting development through lending and technical aid to borrowers.)

b) Facts of Bank's lending to date

Amounts, geographical spread, categories of loans

(We have made loans totaling about \$1,350 million -- for projects in more than half our member countries, located on six continents. A rough breakdown of amounts of our loans for various broad purposes:

Industry----	about \$560 million; bulk for European reconstruction
Electric power----	about \$350 million
Transport & Communications----	about \$310 million
Agriculture & forestry----	about \$130 million

c) Making development pay for itself

(We apply strict banking standards, do not make grants or fuzzy loans. We make only loans which will produce definite results, which borrower can repay through own efforts. We help a country pay its own way in

development, get its economy on self-sustaining basis. This kind of operation builds self-reliance, confidence in international credit, respect for international commitments -- matters of growing importance today.)

3. How We Make a Loan

a) Preliminary requirements of Bank's Charter

(Broad conditions which must be met before Bank will seriously consider any loan: loan must be for productive purpose; borrower unable to obtain loan privately on reasonable terms; reasonable prospects of repayment; if borrower is a private enterprise, Government guarantee necessary.)

b) Examination of economy of borrowing country

(Serious investigation of a loan begins here. We generally send mission to country to examine such matters as: Can country's economy service the additional foreign debt? Are its economic and financial policies furthering development? What is country's debt record and attitudes? Is the proposed loan for a top priority project, or should others come first?)

Bank's advice may bear results at this stage: Examples:

(Peru -- we showed Government that better port management was as important as fork-lift trucks; Yugoslavia -- development program scaled down to manageable proportions.)

c) Examination of proposed projects

(We make a detailed study of technical and financial aspects of each project. Usually send mission, composed of staff members and special consultants, to investigate following: soundness of engineering plans -- for example, availability of underground water resources in Chile, heights of power dams, etc.; existence of adequate markets for product; sources of local capital to cover local costs; availability of skilled labor and management; general capacity of borrower to complete project

efficiently.)

d) Some of our working methods

Working parties

(Composed of loan officers, economists, lawyers, financial officers, Follow a loan through all stages of its discussion.

The Staff Loan Committee

(A clearing house for policy consideration of all loans. I act as its chairman. Receives Bank mission reports. Since no single person or group can know all answers, loan proposals thrashed out and shot at in Staff Loan Committee. Final recommendations presented to president.)

Negotiation and approval of loan

(When president is ready to recommend loan, contracts are negotiated with representatives of borrowers. President presents recommendation to Executive Directors for final approval.)

Objective approach

(Throughout, Bank tries to consider all aspects of loan from objective, economic viewpoint. Bank staff of 400 drawn from some 30 nations, but officers do not look at a loan from a national point of view; they talk common business language. Directors have also found common economic ground, remarkably free from political overtones. No management proposal has been rejected by Directors. We have not had to take formal roll-call votes.)

4. Testing a Country's "Creditworthiness"

a) Future trade prospects

(A country must repay any Bank loan through trade channels. We must not only appraise how much its production will increase, but also whether this increase will be transferable -- i.e. how much foreign exchange a

country may be expected to have available for servicing foreign debt. Furthermore, we have to deal in long-term trends, estimate situations as of ten or twenty years from now. Dollar earnings of many undeveloped areas now at record highs; will they continue and at what rates? We base our estimates on available facts, flexibility of a country's balance of payments, resilience of its economy in crises. But these matters primarily involve major elements of judgment, risks, ranges of probabilities.

b) Future trade patterns

(We must also estimate the future directions of a country's trade — a main factor in determining the kind of currency we can lend. If the greater part of a country's exports would normally go to Europe, we would prefer to make the loan partly or entirely in European currencies. We also consider the future market picture for a country's products. We can assume, for example, that national income in the U.S., which has doubled in the last 30 years, will continue to grow, and that U.S. demand for key imports would normally continue high.

c) Some intangible factors

(Along with economic appraisal, psychological factors important. Risk of war and internal upheaval obviously must be weighed. But Bank has made loans to member countries rather close to shadow of war — Finland, Thailand — principally because of attitudes towards sacredness of obligations. We must consider whether a country believes foreign credit precious enough to impose great sacrifices in time of stress. We base an optimistic estimate on such factors as debt record and general treatment of investors.

5. Sources of Bank's Lending Funds

a) Capital structure

(2% and 18% -- lending funds available from these sources have amounted to a little over \$775 million. 80% is backing for our bonds -- in addition to general assets and loan portfolio. U.S. portion of 80% subscriptions alone amounts to \$2½ billion.)

b) Direct borrowing

(We have sold issues totaling \$450 million in U.S.; equivalent of about \$50 million in London, Switzerland, Canada. Our U.S. issues becoming seasoned investments, and we are broadening our foreign markets. We are interested both in obtaining more 18% funds and selling further issues abroad so that our lending will not be restricted to U.S. dollars. Have already made loans entirely in European currencies -- Iceland, Yugoslavia. We expect to continue to come to U.S. market frequently. Gear our borrowing to lending needs.)

c) Cooperation with private investors

(In addition to direct sales of bonds, Bank looks for other ways of operating in a sort of broad partnership with private investors. We sell securities from loan portfolio to institutional investors both with and without our guarantee -- these sales now total about \$50 million. Another method is enlisting participating of private investors in financing a particular development project in a member country. When we made our loan of \$20 million for transport in South Africa, commercial banks in U.S. loaned South Africa \$10 million to be applied to same project. We are interested in this kind of combination of Bank and private financing of development. Recently Chase participated directly in KIM loan.)

d) Operating at a profit

(Bank pays own way, is not dependent on appropriations from U.S. Congress or any parliament. Profit now running at rate of something over \$15 million a year. We ^{RELATE} interest rates we charge our borrowers to rate at which

we can borrow. Net income, excluding about \$25 million allocated to Special Reserve, now well over \$50 million.)

6. Major Fields of Development Lending

(While priority needs vary from country to country, one generalization is true: Bank can effectively finance basic aids to production which are platform from which a country can develop.)

a) Electric power

(Highest proportion of our development loans for power expansion -- the muscle of development. We have financed hydro and thermal plants in many different countries.)

Examples: Mexico, India

(Mexican economy expanding rapidly; heavy demand for power. We have made loans to private Mexlight and to Federal Electricity Commission. Projects we are helping to finance will add 700,000 kilowatts, virtually doubling country's generating capacity. In India, Bokaro will be largest steam power plant in country; it should have chain-reaction effect on economy -- make possible higher coal production, new fertilizer, cement, locomotives/industries, aid agriculture.

b) Transport and communications

(Arteries of development which every country needs.)

Example: Ethiopia

(One of the most underdeveloped areas on earth. We found first requirement was for highways. Unbelievably poor condition of roads and communications.

Our loans for highways and telecommunications will open up economic potential.)

c) Direct aid to agriculture

(Basic utilities are indirect help to agriculture, but Bank has also made substantial loans for direct aids such as farm machinery, flood control, irrigation.)

Example: Thailand

(Irrigation project will regulate water supply in huge area of 2 million acres in central plain, one of world's greatest rice bowls. Bank's loan of \$18 million expected to result in additional rice exports worth over \$90 million annually - an annual return amounting to more than 300% of original investment.

d) Broad development programs

(Along with specific projects, we are increasingly interested in financing integrated programs of development as a whole. Undeveloped areas are beginning to come forward with workable plans.)

Example: Belgian Congo

(Potentially one of richest areas in world. Stepping up production all along line, especially of important minerals. We made loans to Congo Government and Belgium to cover direct and indirect foreign exchange costs of 10-Year Plan which we believe will result in striking advances.

e) Local credit institutions

(Private initiative always main driving force of economic development. In addition to large projects, Bank tries to find ways of aiding small business. We think one effective way is by lending to established or new development banks.)

Examples: Mexico, Turkey

(Mexican consortium line of credit made use of existing institutions. In Turkey we helped to set up new bank and advise in management.)

Other possible methods of financing private industries

(By our Articles, we can lend to a private enterprise only if there is a government guarantee. Governments may hesitate to favor one industry by giving guarantee; industries may fear governmental control. We are therefore much interested in proposals by Rockefeller committee to establish International Finance Corporation. Presented views to EXOSOC, etc.)

7. Building a Bank-Client Relationship

a) Importance of local effort in development.

(Far more important than foreign capital is a country's will to develop, effectiveness of its policies, use of local resources, administrative competence. Bank establishes a continuing relationship with its borrowers to help deal with many of these vital problems.)

b) End use follow-through

(Our system of supervising loans goes beyond seeing that goods which we finance are put to proper uses. We are often able to help borrowers set up efficient procedures, forestall adverse developments which would affect projects and general economy.)

c) Technical assistance

(We constantly give technical advice in connection with lending. Beyond that, we are sending a good many comprehensive survey missions to member countries on request. These help a country tackle basic development problems: appraise its total economic resources, establish priorities, frame broad development programs. We are experimenting with other methods of technical aid: sponsor seminars on programming at which officials of member countries exchange views with Bank staff; we assign Bank officers for long periods as advisors to member governments. All these methods tend to open lending opportunities, strengthen economies.)

d) Future trends

(Bank's future course cannot be predicted in detail; our activities are expanding along many lines. We are lending for specific projects, and assisting broad development programs in member countries and some overseas territories. We may find it feasible to help finance programs covering wider areas than individual countries. Future international authorities, if created on workable basis, may open up new channels. We keep our operations flexible, try to meet practical needs as they arise.)

ADDRESS BY ROBERT L. GARNER, VICE PRESIDENT
of the
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
before the
NATIONAL CONFERENCE ON INTERNATIONAL ECONOMIC AND SOCIAL DEVELOPMENT
SHOREHAM HOTEL, 10:30 A.M., APRIL 9, 1952

"THE WORLD BANK'S CONTRIBUTION TO DEVELOPMENT"

In Washington, conferences come under the head of basic industry; to those of us who live in these parts they are no novelty. Nevertheless, it is impressive to see serious minded people from all parts of the country come here and take time to broaden their understanding of development problems.

Promoting economic development is the main business of the World Bank. We believe in it. We do our part mainly by lending money. Some people, I'm sure, consider that we are too hard-boiled in our lending; however, we are convinced that a substantial share of development can be accomplished by applying the proven methods of investment banking. Therefore, I am going to tell you how we go about our business and then make a few observations on some of the facts and fantasies concerning development — as we have come to see them.

Since the spring of 1947, the Bank has loaned \$1,300,000,000 in 26 countries. The first loans were made to help carry out the postwar reconstruction of Western Europe. However, when the Marshall Plan went into operation in 1948, the Bank turned to its long-term job, the financing of development — and since then it has loaned \$800 million in this field. Primarily, this money has helped pay the foreign-exchange costs of basic facilities — electric power; transportation — railroads, roads, ports; communication; irrigation and flood control; land clearance; grain storage. We have also financed the purchase of agricultural equipment, and machinery for factories and mines.

Let us, by way of illustrating our methods, trace the story of the Bank and Colombia.

In 1948, at the request of the Government, the Bank sent a mission to Colombia to investigate power and agricultural projects; and eventually we made three loans.

However, the members of the mission realized that there was need for a broader approach to Colombia's development problem. It was not enough to look at one city's need for power, one valley's need for tractors, one area's need for roads. It seemed clear that what was needed was an inventory of the country's resources as a whole, followed by a long-range program for development, with a selection of the projects that should be undertaken first.

Accordingly, the Bank organized a 16-man mission to study the Colombian economy as a whole and to present recommendations. This was the first of the general survey missions sponsored by the Bank. Since then we have sent such missions to Turkey, Cuba, Iraq, Guatemala, Ceylon, Surinam and Jamaica. The Colombia mission included experts on transportation, industry, agriculture, health and welfare, governmental organization and finance. It spent five months in Colombia, and another five months analyzing information and preparing a report, which was made public.

Economic reports all too often are a mission's last will and testament — soon to be forgotten. And I am willing to admit that some of our mission reports have contributed more to economic literature than to economic development. But the Colombia report is one that did get practical results.

First, the Colombian Government set up a non-partisan Committee on Economic Development composed of eminent citizens — not government officials — to advise the Government on action to be taken. This Committee worked for nearly a year. It endorsed most of the mission's recommendations and added some of its own. The Government responded by taking positive action. The peso was

revalued to a more realistic basis. Import and export controls were largely abolished. And the budget was brought into balance. To help carry out one of the mission's most important recommendations, for the extension and maintenance of the principal highways, the Government agreed to put up peses equivalent to \$28 million to cover the local costs. The Bank loaned \$16.5 million to cover the costs of imported equipment and services of foreign contractors, and today a good start has been made toward building a system of modern highways and training Colombians to keep them in repair.

Experts are now completing a study, under the joint sponsorship of the Government and the Bank, of the railways and airport facilities of Colombia, to afford a basis for their reorganization and more efficient management and operation. It may well be that capital expenditures for extensions and new equipment will be financed, in part, by loans from the Bank.

A basic recommendation of the economic survey was that there be set up directly under the President a planning office to provide a continuous review of the development program and to advise on priorities. Such an office has just been organized and the Bank is assisting in securing expert advisors and in developing procedures.

This story of the Bank's work in Colombia shows the basic pattern of its operating methods. It is a pattern of advice backed up by money. Frequently, the advice is hard for a country to accept and follow. But most countries with whom we have worked know that the Bank's first interest is the economic strength and well-being of its members; and by and large our advice is given considerable weight.

As we investigate projects before making loans and assist our borrowers in carrying out projects after loans are made, we are able to help them by

providing a wide variety of practical assistance. In Bangkok our engineers advised the port authorities on the most suitable dredge for deepening the channel. In El Salvador one of our men helped to set up and market an issue of bonds to finance the local cost of a new power plant. In Ethiopia one of our missions helped to organize an autonomous authority to manage road construction and maintenance, and an industrial bank to finance industry.

These are only a few examples of the kind of advice furnished by the Bank as part of its day-to-day operations. In its six years of existence the Bank has sent over 300 missions of one kind or another to its member countries — and most of them have given technical assistance of some kind, in addition to laying the basis for loans by the Bank.

I should explain briefly where the Bank obtains the money it lends. First, there is the capital paid in by our member governments — and this amounts to \$1,687 million consisting of 737 million U.S. dollars and the equivalent in other currencies of some \$950 million. Of this we have loaned about \$840 million; the remainder can be used only with the consent of each subscribing government. Second, we have made a profit of more than \$55 million. For additional funds, we must borrow by selling the bonds of the Bank in private markets. So far, we have sold the equivalent of about \$450 million — \$400 million in the United States and the balance in Switzerland, the United Kingdom and Canada. By selling its bonds to private investors to obtain funds for lending, the Bank channels private capital into development financing through^{out} the world. I would like to stress this point — the Bank must convince the private investors who buy its bonds that it is operating on sound banking principles. Otherwise, we might be cut off from one of our main sources of funds for lending.

In the years since the end of the war there has been increasing consciousness of the economic and political dangers of a world divided between those who are benefiting from the industrial techniques and scientific knowledge of the twentieth century and those who live in misery. There is a widespread urge that the whole process of development be stepped up to a much faster pace. This is good. But it is also important to understand clearly the nature and magnitude of the obstacles standing in the way of development. Unless these are given full weight, the whole development effort may well be crippled by frustrated hopes.

If the development effort is to be based on a solid foundation of realistic thinking, we must avoid certain romantic fallacies. Of these fallacies, a few are particularly dangerous:

First is the idea that development would be easy if only enough money could flow into the undeveloped countries. This is an alluring idea, but large amounts of money can be spent without producing any economic advantage. It can be spent on showy projects -- costly steel mills in countries that might better learn first to make shovels and plows; or on airplane factories where simple repair shops are more appropriate; or on hospitals where no provision has been made for doctors or nurses. Ill-directed investment funds can enrich big land owners and functionaries and leave the people as poor as ever. They can fall into the hands of those who have a talent for collecting hard currency and giving it safe conduct into foreign banks and investments. To be sure, most undeveloped countries need more investment capital, but to make the money count they need first better economic programming and better organization of their institutions. They need industries producing consumer goods so that their people will have something to work for. They need land reform and tax reform. To spend

money economically and creatively for development is a hard task; and it is a dangerous idea that money alone can do the development job. Management — careful planning and good operation — is more essential than money.

A second fallacy is that the job of development can be done in a few years. Development is a state of mind. People have to develop themselves before they can change their physical environment; and this is a slow process. It must grow like a tree and cannot be forced like a rose in a hothouse. It involves changes in relations between classes and races. It requires the improvement of governmental organization and operation; the extension of social institutions — schools, courts and health services. These things take much longer than the building of factories and railroads and dams. The easiest problems are those to be solved by the engineers. Habits of thought and of conduct are the most stubborn obstacles to development. They cannot be pushed out of the way with bulldozers.

A third fallacy is that the task of world development can be undertaken as a crisis operation. One gets the impression that many people think the development effort should be operated as a fire department; that when a political or social fire breaks out in some part of the world, the fire trucks should rush to the spot immediately with economic aid. I believe this is a dangerous approach. It can only raise false hopes for results which cannot quickly be achieved. Development is not an emergency and it is dangerous to consider it as such. Aid to stamp out plague or to meet the effects of a famine can be handled on an emergency basis — aid for economic and social development cannot.

I do not wish to belittle the sincere concern of many good people for the welfare of others. Such feeling is admirable. But I gravely doubt

that humanitarian sympathy is a solid basis for world development.

Responsibility for giving economic assistance should be undertaken only in a nation's own legitimate self-interest — including its interest in helping to build the kind of world in which it will be both safe and satisfying to to live.

The idea of world development is one of the most constructive and hopeful ideas of our times. We in the Bank believe that development will make sound progress — without destroying the hopes that have been raised — if all of us remember some of the minimum conditions of progress:

1. In order to develop, a nation must have a will to develop. Without this will no amount of external aid will get the desired results; with it a nation can move steadily ahead with a reasonable amount of help from others.
2. The leaders and the people of a country must find ways of creating some degree of political stability, so that development plans which are made in one year will not be thrown overboard in the next.
3. A country's development must be carried on in terms of its actual resources and the nature of its people — not in terms of some imported ideal.
4. Means must be found to give individuals an incentive to work and to create, and these incentives should extend to all classes of people, not only to the favored few.
5. Countries needing capital should take positive steps to create confidence in the minds of foreign investors — confidence in the country's intention to repay — confidence in its willingness to treat foreign capital fairly — and confidence in its ability to use money wisely to increase productivity.

6. And finally, each country must accept the primary responsibility for its own progress — and be willing to pay a price — in effort and in self discipline — to get it.

If these minimum conditions of progress are provided — and given some common sense and much hard work — the nations of the world can together create conditions under which people can live with measurably increasing hope for a better way of life.

10/17/51 - 30c.

ADDRESS BY ROBERT L. GARNER, VICE PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT,
AT THE FIRST JOINT CONFERENCE OF CORRESPONDENT BANKS, SPONSORED BY
THREE NATIONAL BANKS OF MEMPHIS, HOTEL PEABODY, MEMPHIS, TENNESSEE,
OCTOBER 18, 1951, 3:30 P.M.

HOW THE INTERNATIONAL BANK MAKES ITS LOANS

I feel at home here today. I was born and spent my early years in Mississippi, and went to school and college in middle Tennessee. As a trustee of Vanderbilt I have kept an anchor in this state. To you bankers I speak as one who has spent most of my life in banking and I think we can agree that the job of bankers is to put money to work.

Within the lifetime of most of us here today, the South has progressed from an economically undeveloped area to one of the most rapidly improving sections of the United States. Through investment of both local funds and funds from outside the region, we have seen the South become more productive with resulting greater wealth and better living standards for most of the people.

We know what money can accomplish if it is soundly invested. We also know what can happen, at home or abroad, when neither the investor nor the borrower weighs carefully the economic soundness of projects and the ability to repay loans. We remember the reckless enthusiasm with which American private capital was invested abroad in the 20's -- how our investment bankers sold issues of foreign governments, states, cities and private companies, often without much regard to their purposes nor to prospects of repayment. Some bankers and some investors had serious doubts about such practices but, in general, American investors bit hard. There was some sound lending and sound borrowing, but the bad loans are still remembered and will be remembered for years to come. They helped, along with many other things, to destroy confidence in the international flow of capital in all forms. We, in the International Bank, are trying

10/18/51 - Memphis, Te
Joint Correspondent Banks

to help build up practices which will restore that confidence. Today I shall talk about some of our principles and operations and indicate how we are attempting to put sound banking principles into practice in foreign lending.

First, I want to explain where the Bank gets its money. The capital stock, subscribed by its 50 member governments, amounts to \$8.4 billion. That is a lot of money, but most of it is a commitment on paper, not money in the bank. Let me illustrate.

In August Sweden joined the Bank and subscribed to 1,000 shares of stock at a par value of \$100 million. Two percent or \$2 million was paid in actual U.S. dollars; eighteen percent, equal to \$18 million, was paid in Swedish kronor. The remaining eighty percent is on our books as a pledge by Sweden on which we can call if the Bank needs funds to meet its own obligations. In other words, four-fifths of \$8.4 billion of capital stock is in the nature of a guarantee fund which backs up the bonds which the Bank itself sells to private investors. The U.S. liability to this fund is \$2.5 billion. This means that our bonds are in effect backed by the U.S. Treasury up to that amount.

The portion of our subscribed capital that we may use for lending is the two percent subscription in gold or dollars and the eighteen percent in the currencies of other member countries. The two percent presents no problem and we may lend it without restriction. However, the eighteen percent can be used only with the consent of each member country. So far, we have loaned all of the eighteen percent subscription of the U.S., \$570 million, and we have received consent of other countries to use the equivalent of \$41 million of their subscriptions.

Our total loans are about \$1.2 billion in 24 countries. Of this

the greater part has come out of our capital and earnings and the balance through the sale of our bonds in private finance markets — \$400 million in the U.S. and the equivalent of \$36 million in Switzerland and the United Kingdom.

We shall continue to go to the markets as required for money to make new loans. We have been able to sell our bonds in part because of the commitments of member countries backing our obligations. However, I believe that, in large part, our bond issues have been successful because private investors have developed confidence in the Bank's operations and in the way it follows up the use of its loans. Incidentally, all interest and principal due on our loans to date have been paid on the dot.

I think it is useful to outline the setup of the Bank. Our management and staff is out of politics. We serve the Bank, and are not subject to direction by any government official. The staff is selected and controlled entirely within the Bank. No loan can be considered by our directors unless it is recommended by the president of the Bank. These directors, appointed or elected by our stockholding member governments, approve all loans and other major actions like the directors of your banks. In practice our management and directors operate together just about the same as in the private banks and corporations with which I have been connected.

We do not make loans for political purposes.

When the Bank was first set up it was thought of primarily as helping to finance the rebuilding of war-torn countries of Europe. In 1947 our first loans of nearly \$500 million were made to France, Denmark, the Netherlands and Luxembourg. They helped to finance power, merchant shipping, steel mills, railroads and critically needed materials and capital equipment of many kinds. The loans were made before the Marshall Plan was in operation and

at a time when Europe was in critical need of help.

However, for the past three years we have devoted most of our attention to the development of underdeveloped countries stretching from Iceland to India, Thailand and Australia; from Finland to Turkey, Iraq, Ethiopia and the Belgian Congo; and from Mexico down the length of Latin America. Our loans have helped to finance power, communications, ports, railroads, highways, flood control, irrigation, land clearance, agricultural implements, grain storage, timber production, mining and a variety of industrial enterprises.

How do we go about our lending business? First, we look at the country. Can it and will it repay? What kinds of projects will do the most for its development? Certain loans will directly increase exports and provide foreign exchange to meet the loan charges. However, many projects such as power plants earn no foreign exchange, but with more power can come new industries, new exports, and increased ability to service loans. Our basic lending principle is this -- the loan must be productive -- it must strengthen the country -- and we must be convinced that it will be repaid. When we are satisfied on these basic points, we examine the project in detail. Is it economically, financially and technically sound? Finally, if a project meets these tests and we make a loan, we assure ourselves that the money goes where it is supposed to.

It's a sound old maxim that the first step in getting a loan repaid is to be sure that the borrower makes good use of it.

Another basic principle is to be sure that the borrower does his share of the job. Ordinarily, we furnish funds only for foreign exchange needs, with the borrower providing for the local costs. In any case, our loans are only a part of the total investment. We only help those who are willing to help themselves.

Furthermore, we try to get all the facts. We study the country and the project on the ground. I personally have visited more than 25 countries to form general impressions and discuss questions of policy. Missions consisting of loan officers, economists, engineers and other technicians have spent protracted periods in some 30 or 40 countries. In addition to use of our own staff, many of our projects have been studied, engineered and supervised by some of the best technical people in the world.

The first development loans we made were to Chile in 1948. After study, we decided that Chile would have sufficient dollars to service the proposed loans and that hydroelectric power and agricultural equipment stood high on the list of things the country needed. But there was one fly in the ointment. Chile was in default on outstanding bonds. We considered that the country's attitude towards prior debts was an important factor in its creditworthiness. We knew that many investors to whom we wished to sell our bonds were critical of the defaults. We explained these things to the Chileans. They sat down with the bondholders' committees and worked out a settlement, and we made our loans. In this and in other cases we believe we have played a part in rebuilding the validity of international contracts.

Another South American country, Colombia, illustrates a different approach. Again we made loans for power and agricultural equipment, but in our negotiations we and the Colombians were both conscious of the importance of looking at their whole economy. What were the lines along which it should develop? What were the most important things to do first? Out of the discussions came a 16-man mission, organized by the Bank in 1949, to look at Colombia as a whole. This was our first attempt at a comprehensive survey, and subsequently we have sent similar groups to

Turkey, Cuba, Iraq, Guatemala and Ceylon. This Colombian mission included specialists on roads, railroads, waterways, aviation, health and welfare, agriculture, governmental organization and finance. They spent about five months in Colombia and an equal period was required to analyze their findings and publish a report. Then the Colombian Government set up a non-partisan Economic Development Committee of eminent citizens (not government officials) to study this report and advise the Government on action to be taken. This committee worked for nearly a year. The result was endorsement of most of the mission's recommendations, followed by positive action by the Government in a number of fields. For instance, the peso has been revalued to a more realistic basis, import and export controls have been largely abolished and the budget has been brought into balance. A program to rebuild, extend and maintain the principal highways was accepted by the Government. They arranged to contract the work with five first-class American construction firms, and the Bank made a loan of \$16.5 million to cover the cost of construction equipment and fees. The Colombians are supplying the local funds estimated to equal \$28 million. It appears that for the first time the country will have a system of well-built roads and Colombians will be trained to maintain and extend them.

With the road program under way, we have been asked by the Colombians to consider the financing of a missing link in the railroad system and to secure for them experts to work out a new setup and management for the railroads and a ground organization for civil aviation. Within the coming weeks we are sending down a partner of an important investment banking firm to study with the Colombians the development of security markets and of institutions to assist in long-term financing of all types of private enterprise. These are indications of how we are supplementing our loan

operations with assistance in the fields of organization, management and the promotion of private capital activities.

El Salvador is the smallest country in Central America, depending almost entirely on coffee. They have no coal, no oil, and the forests have been cut down for fuel. Only with hydroelectric power can they hope to develop and diversify their economy. One of our leading American engineering firms worked out plans for a power project on the Rio Lempa. Revenues from coffee exports provide dollars to service a loan. We were prepared to make it. However, the Government wished to be sure that its own people looked favorably upon incurring a foreign debt. Before concluding the loan, it appointed a committee of six private citizens and three government officials. This committee reported favorably and the loan contract of \$12.5 million was signed. However, a condition of the loan was that the Rio Lempa authority would raise the additional amount of pesos needed to pay the local costs. They asked our help and we loaned our Director of Marketing to assist in setting up a bond issue equivalent to \$5 million, nearly half of which was subscribed by local private investors — something new in that country. Well engineered and financed, the project is now on its way.

The loans I have described so far have been made to government agencies. We have also been able to make certain loans to private corporations, with the guarantee of their respective governments.

For many years all the power in Mexico City and surrounding area was supplied by the Mexican Light and Power Company, largely owned by Canadian, English and Belgian investors. During the 30's the company could not secure sufficient capital to expand its facilities to keep up with the rapidly rising demand. Therefore, the Mexican Government in 1938 set up a Federal Electricity Commission to build generating facilities, most of the power to

be sold to Mexlight for retail distribution. In 1948, both the company and the commission applied to us for loans. The company had a complex and unsatisfactory financial setup which, in our opinion, required reorganization. Moreover, the rates which the company had been allowed were inadequate to support its expansion. As the result of our advice, the company was reorganized, more adequate rates were granted by the Mexican Government and we made two loans totaling \$50 million, one to the company and the other to the commission. Mexico's power facilities are rapidly being expanded through a combination of public and private organizations.

Furthermore, as a means of encouraging private investment, we arranged with five of the leading private banks in Mexico to set up a consortium to which we granted a credit of \$10 million. This is being used to provide dollars for the import of equipment for the expansion of Mexican manufacturing industries, to which the banks will advance required peso loans.

In Brazil we also made two loans of \$90 million to the privately owned Brazilian Traction, Light and Power Company, one of the best utility companies in the world, as part of a \$200 million expansion program.

Now let's take a jump to east Africa. In 1950, in response to an application from Ethiopia for a loan for a variety of purposes, we sent a 7-man team to study the country. The first thing our people discovered was the virtual impossibility of traveling on Ethiopia's roads. Ten years ago Ethiopia had an excellent road system built by the Italians during their occupation, but after the war the roads went back to nature. One afternoon at four o'clock our mission started out to visit a coffee collecting center twenty-five miles from the city of Jimma. After two hours they had gone three miles and the jeep was mired down. Directly ahead was a Fiat truck also mired down. The driver of the truck advised

them that the normal time for the 25-mile trip was from three to five days. Thereafter they made most of their travels by air.

Communications are even worse. In a country one-half again as large as Texas and with a population of over 12 million there are some 1700 telephones, 1200 of them in the capital, Addis Ababa. People wait four or five days to put through a call to the provinces.

Passable roads are necessary if farmers are to send their oil seeds, coffee, hides and cereals to market within the country and abroad. Improved communications are necessary in order to maintain contact and do business.

We made three loans to Ethiopia, totaling \$8-1/2 million, for road construction, for telecommunications and for a development bank. The key problem in all of these situations was to assure proper management, and we saw to it that a road authority and a telecommunications authority were set up, each headed and staffed by an adequate number of competent Americans. The development bank, which is to grant credits to private industry, has retained a well-qualified European banker as its executive head.

Ethiopia is a primitive country, but with rich resources. It has a temperate climate and a vast plateau covered with fertile topsoil; it looks like Mississippi delta land. Some parts of the country yield three crops a year. There are indications of considerable minerals in the mountains. The lakes and rivers can be sources of power. With money from our loans and the willingness to accept foreign advice and management, Ethiopia is in a position to move forward.

Last month we made quite a different kind of loan to Belgium and the Belgian Congo. The Congo, too, is an undeveloped country, but under the skillful control of the Belgians it has already become a large producer of copper and other strategic minerals. Since the war the Belgians have

developed a program for the all-around development of the colony. In the ten years 1950 - 1959, the Government expects to spend the equivalent of \$660 million for land and river transportation, ports, electric power, housing, schools and other public services. These developments will pave the way for an inflow of private capital into mining, industry and agriculture. The effect of all this development will be to cause additional demand for all types of goods. Some, of course, will be produced locally, but in a large measure reliance will have to be placed on additional imports and it is these imports which our loan of \$40 million to the Congo will help to provide for. It will be used to pay for imports of all kinds -- capital goods used directly for development, raw materials for new factories and consumer goods to meet the demand caused by higher employment and wages.

In addition, Belgium will manufacture most of the equipment for the Congo development program -- requiring Belgian imports of raw materials. Our \$30 million loan to the Mother Country will assist in financing these imports as well as the purchase of consumer goods to offset inflationary effects.

The Bank's mission which visited the Congo this spring reported that the development plans are well laid out and competently administered. We thus feel justified in varying the usual pattern of our lending to meet the needs of this particular case.

Last week we signed a loan equal to \$28 million to Yugoslavia. This transaction has been long under consideration. Two years ago we sent out a mission headed by our present Loan Director, including engineers, transportation and mining specialists, economists and others. They had the chance to move about freely and see the country in detail. Obviously, there have been many problems to solve in connection with this loan, but much has happened in these two years which in our opinion has justified it. The governments of the United States, the United Kingdom and France have agreed

to make substantial grants to Yugoslavia for her immediate requirements over the next twelve or eighteen months, thus putting in the equivalent of equity money. The Yugoslav Government has taken our advice as to the limits of a practical development program in which she expects to spend the equivalent of \$200 million in foreign exchange in the next three or four years. The country has already done quite a job of repairing the damage from the war and, in addition, has got under way a variety of new projects. Many of these old and new enterprises require relatively small additional imports of equipment to bring them into production or to increase their output. Our loan will furnish key items needed to complete some thirty projects widely spread throughout the country. They include coal and metal mining, power, key railway supplies; salt production, which feeds the addition to a soda ash plant, which in turn will supply the pulp, paper and glass factories. More kraft paper production will provide bags for the expanded cement mill, and so on. By furnishing \$28 million worth of equipment, we will make it possible to improve Yugoslavia's foreign exchange position by something in the neighborhood of \$60 million a year. An unusual feature of this loan is that it will probably require no dollars. Yugoslavia's trade is now largely with Western Europe and it is in a better position to repay a loan in European currencies than in dollars. We therefore made the loan in sterling, Belgian, French and Swiss francs, Netherlands guilders, Italian lire, and Danish kroner.

I think you will be interested to know that our staff members who have worked with the Yugoslavs have been impressed by the high caliber of their engineers and the considerable skill with which their projects have been developed. Furthermore, they readily accepted every arrangement which we proposed for close consultation regarding their future borrowing, development plans and checking of the use of our loan proceeds.

I have tried by these varied illustrations to show how the Bank is doing its job. Accepting the risks which are inherent in today's troubled world, we are getting all available information, using the best brains and experience we can find, and applying sound principles and practices to this business of foreign lending. We are supplementing our loans with advice, and in some cases conditioning them on improvements in financial practices and the introduction of better management and technical methods. We are insisting on a maximum of effort from our borrowers.

Already our loans are producing results in the form of more food, more power to turn the wheels of industry, and improved railroads and highways and ports to speed the movement of goods within countries and into the stream of international trade. We are putting money to work to get more production. We are, I believe, helping to bring better standards of living and greater economic strength to people who want a free and a materially better life for themselves.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FOR THE PRESS

For Release To A.M.
Newspapers, April 14, 1951

Address by Robert L. Garner
Vice President of International Bank for
Reconstruction and Development
To the Foreign Traders Association
Philadelphia, April 13, 1951

I am glad of the opportunity of being with many old friends here this evening, and to join with you in your observance of Pan American Week. As you know, the Foreign Ministers of the American Republics have just concluded a full-dress conference in Washington. The countries to the south have agreed to take on larger responsibilities for their own defense, and to stress production of raw materials useful to defense. The United States, for its part, has agreed to give as much help as it can, in the form of goods and technical assistance, to further economic progress in these countries. Economic development is considered to be an important part of Hemisphere preparedness.

Economic development also is the main business of the World Bank. We function as an international banking corporation, and most of the Hemisphere countries are members and stockholders. Our first loans to less developed countries were made in Latin America a little over three years ago. Since then, we have invested about a quarter of a billion dollars in that part of the world. Most of the funds although not all -- have been provided by the United States stock subscription or from the sale of our bonds in the United States. As some of you know at first-hand who have been suppliers to our borrowers, a large part of what has been lent has been used to pay for American equipment and services.

When we look today at the Republics to the south, we see both problems and opportunities. In spite of grave tensions in the world, there are some basic factors in the economic situation which are favorable. Even before the spur of Communist aggression in Korea, world production and trade had risen above prewar levels. The

Latin American countries shared in this achievement. As long ago as last summer, although they were importing heavily from the United States, they had been able to eliminate the heavy trade deficits they had run with this country in the years ^{immediately} following the war.

The events in Korea have tended to add more plus signs to this arithmetic. Almost all of the southern Republics are now getting record prices in the world market for their foodstuffs and raw materials. The prosperity they were beginning to reach in 1950 has now been compounded by the economic consequences of Communist aggression.

This prosperity, pleasant though it is in some respects, has highlighted a basic weakness in the economy of many Latin American nations. As you well know, most of them are dependent on only two or three products for their national livelihood. Obversely, for supplies of many important manufactured items, they are dependent on imports from abroad. They are particularly vulnerable to fluctuations in world trade. When there are merely clouds in the economic picture elsewhere, it is likely to be raining in Latin America.

The new prosperity in Hemisphere countries is now beginning to build up pressures which may become dangerous. In most of these nations, the immediate problem requiring courageous and vigorous action is that of inflation. The problem will be eased to the extent that Latin America is able to sustain imports of consumer goods and productive equipment. There is some promise of obtaining the latter, at least, in the policies which have been enunciated by the United States Government. There is also hope in the fact that European manufactures continue to be in good supply, and at competitive prices. But the governments to the south of us will themselves have to take primary responsibility for dealing with this problem of inflation. This is a time when they will need extra portions of toughness and skill, in taxation and other measures, to keep their economies in balance.

At the same time, as I said a few moments ago, this seems to me to be a time of exceptional opportunity. The growth of foreign exchange earnings, and the potential

increase of savings that can be made from enlarged domestic income, provide new assets for investment in sound economic development. The situation has features which should be attractive to foreign investors: the improved earnings of these countries have increased the creditworthiness of borrowers in Latin America, and have reduced the problems of monetary exchange which have been a deterrent to private investment.

Now, it seems to me, is the time when steps should be taken to broaden the present prosperity of the Hemisphere countries into a future of greater economic stability. This future can be achieved if investment is so applied as to increase the variety of Latin American production, to nurture domestic agriculture and industry where this can be done efficiently, and, in short, to put these countries on a broader economic base with a rising standard of living. If this could be accompanied by an increasing political stability we might confidently expect a sounder partnership, in both diplomacy and business, between them and the rest of the free world.

With that preamble, I would like to turn now to what the International Bank is doing in Latin America. Our objective is to broaden the economic base on which the Hemisphere countries operate. We try to assist these countries in two practical ways. In the first place, we provide some of the development capital they need -- ^{other} we make loans to governments, and to/borrowers in Latin America, for projects of a priority nature. In the second place -- and this is becoming increasingly important -- we advise member countries on their development programming in general. When governments so request, we help them to get competent technical assistance in working out a broad program of economic development which is in line with the country's needs and capabilities.

Now, as to loans. Up to the present time, the Bank has loaned \$260 million in Latin America. By and large, the purpose of these loans has been to help provide basic facilities necessary for increased production. They are financing the import of equipment needed for key projects, for projects which can have a catalytic effect on many different sectors of a country's economy. In most Latin American countries, a basic need is for electric power, and the bulk of our loans has gone for power

development -- in Brazil, Chile, Colombia, El Salvador, Mexico and Uruguay. We have also made loans for expanding the telephone systems in Brazil and Uruguay, for the import of modern agricultural machinery into Chile and Colombia; for assisting small and medium-sized businesses in Mexico; and for building up an efficient system of highways in Colombia.

The chain effect which a Bank loan may have is shown by a few examples. Let's look first at a project we are helping to finance in a Central American country - El Salvador. The Bank made a loan of some \$12½ million to a government agency in El Salvador for hydroelectric development. This project will double the country's supply of electricity.

The loan became effective last September. Now the site of the project is a graphic picture of how a blueprint comes to life. On the banks of the Rio Lempa, in an area which was formerly wilderness, a busy labor camp is in operation. Some 2,000 men are at work erecting the dam and building the power plant, which will be tunneled into solid rock. They are operating the heavy equipment which the Bank's loan has financed -- cement mixers, tractors and so on -- which has been brought to the area over a specially constructed access road. Our staff members who recently visited the project report that it is getting along on schedule.

What will be some of the effects of this project? The new power will fill the heavy existing demand of established industries, and in anticipation of increased power supply, construction has already begun on El Salvador's first cement factory and first big fertilizer plant. And a new bank, which will concern itself with the improved investment opportunities which are expected to result from the increase in power, has been opened in San Salvador, the capital city.

Increased power will also facilitate irrigation through the use of pumping systems, and so aid agricultural production. It will also allow the substitution of hydroelectric power for more expensive diesel units, and thus save foreign exchange by reducing the need for importing oil. An indirect, but important effect, will be to improve El Salvador's transport system. The new access road which has been cut

through to the dam site will be extended to the Honduran border, and will form an important new link in the inter-American road network.

There will be social effects, too. At present such a common necessity as water is scarce in El Salvador's cities. The new power supply will make possible adequate water as well as lighting for schools, public buildings and homes.

This gives you a rough idea of how one loan can affect many phases of a country's economy and living standards. I think the Rio Lempa project will be an important factor in meeting El Salvador's greatest need -- the diversification of her economic life.

In a vastly larger country -- Brazil -- the Bank has made two loans amounting to \$105 million. The bulk of this is for development of hydroelectric power. Here again, the effects of these loans will be to meet a heavy backlog of demand from existing industries and also to furnish power for new industrial and agricultural uses. With regard to ultimate uses, our two power loans in Brazil present an interesting contrast.

Our largest loan was made to the Brazilian Traction, Light and Power Company which is a well-managed private concern. It is financing equipment needed for some very bold engineering operations, including the diversion of rivers and construction of a series of dams and reservoirs. Brazilian Traction serves the areas of the capital, Rio de Janeiro, and Sao Paulo, the "Chicago" of Brazil. These are the most highly industrialized, and the fastest developing areas in Latin America, containing a heavy concentration of Brazilian industry. But if their growth is to continue, added power supplies are essential. The company's expansion program therefore calls for increasing the generating capacity in these areas by 50%.

Our other power loan in Brazil was made to a publicly owned body, the Sao Francisco Hydroelectric Company, for a project in an entirely different kind of area. It calls for construction of a power plant on the great Sao Francisco river in the northeastern section of the country -- the hump of Brazil which juts out toward Africa. The interior of this region is largely undeveloped. The generating capacity

provided by our loan will meet the existing demand for power in the coastal cities of the area. Additional generators which can be installed in the future can be a basis for considerable expansion of both agricultural and industrial activity on the coast and in the hinterland. This project is an important part of the Brazilian Government's general development program.

Taken together, our two power loans to Brazil may be expected to have substantial effects on the expansion and diversification of Brazil's economy.

I would like to give you an example of the effects of another type of loan, in Colombia, for the purchase of modern agricultural machinery. We made this loan to the Agricultural, Industrial and Mining Bank, an agency of the Government. That bank, in turn, is selling this equipment to individual farmers throughout Colombia. Some of our staff members have just been down to see how this procedure is working.

They found that the machinery is being used in an effective manner. The bank is not only selling equipment to farms where it is badly needed, but has set up traveling schools which train the farmers in the operation of this equipment.

As a result, some agricultural areas in Colombia are getting into mechanized production. In one area on the northern coastal plain, modern methods are being applied to the production of a crop which is still new to Colombia -- cotton. This region looks like the frontier boom communities of our early days.

Now, I don't mean to imply that the International Bank can lend these countries economic progress, any more than you gentlemen can export it to them. The most either of us can do is to help countries and businesses that are doing their best to help themselves. The Bank is insistent on this point. The \$260 million we have lent in Latin America, for instance, would not have been made available had not the borrowers, in each case, been willing to assume a major part of the responsibility for the success of their projects. On the whole they have put up the equivalent of \$1.40 of their money, in both local currency and foreign exchange, for each \$1.00 the Bank has loaned.

Sound economic development requires that domestic resources be intelligently applied. We do not think that important and steady progress can be made in Latin America by any hunt-and-peck approach. For that reason, the Bank always looks at individual development projects within the general perspective of a country's whole economy. We want to know that the projects are of fundamental importance -- that they will not require capital and human effort that could better be spent in some other undertaking. We want to know that a country's economic policies are such as to support progress, and to provide a favorable environment for the individual project.

This is a point of view which we constantly urge on our member countries. We have been glad to cooperate with a number of Latin American nations in making really comprehensive studies of their economic potentialities and problems. To Colombia, Cuba and Guatemala, we have sent missions of experts, sponsored jointly by the Bank and the governments of these countries. These missions have thoroughly investigated the economic situation in order to write a general prescription of what is feasible and practical to improve production and living standards.

The findings of the Colombian mission, as you know, were published last fall; a non-partisan committee of eminent Colombians was appointed to recommend specific measures based on the mission's findings; and some of these recommendations -- including healthy measures against inflation -- have already been put into effect. The work of the Cuban and Guatemalan missions is nearing completion, and you will have a chance to look at their reports within the next few months.

So far, I have been talking chiefly about what the Bank and its member governments can do, and are doing, to provide what basically are the foundations of industry. Obviously there has to be building on these foundations. Ultimately, there have to be factories to use the power, plants to process increased agricultural output, and goods to be moved by the improved transport systems.

This is a field which must be occupied by private enterprise and private investment. As far as the Bank is concerned, this is an important -- perhaps the most

important -- factor in the whole business of economic development. The Bank can act, and governments can act. But they can provide no substitute for individual initiative -- for the farmer willing to increase production by improvement of his crops and his stock, for the business man who knows that he can make a reasonable profit by providing a better product. Nor could the Bank and all its member governments ever match the immense capital resources at the disposal of private institutions and private individuals.

We in the Bank have been interested in working out ways to assist private business enterprises in member countries. Under our charter, we can make a loan to a private concern only if we obtain the guarantee of the borrower's government. We have made such loans to large private power companies, but we are also working out ways of financing relatively small businesses through local credit institutions.

In Mexico I think we have developed an effective method of aiding the small business man. We have opened a credit to a consortium of eight private Mexican banks and Nacional Financiera, the official financing agency of the Mexican Government, which will be used to purchase imports which various businesses need to carry out their expansion programs. Our funds will be re-lent by the Mexican banks to private concerns; the banks themselves will provide such local-currency financing as may be ^{desirable}. Under this arrangement, the consortium relieves the International Bank of the burden of screening a multitude of small loan applications. Individual borrowers may receive loans from the consortium ranging from \$25,000 to \$1 million. Here is a case in which we are acting on our belief that the efforts of both small and medium-sized business enterprises can add up to something significant in the economic development of a nation.

But beyond what the Bank can now do to assist private business, one of the main needs of the Latin American countries is for an adequate supply of equity capital, of direct investment from sources both at home and abroad. Some very interesting recommendations for meeting this need were made recently by the International Development Advisory Board, headed by Nelson Rockefeller. The report of this Board suggested

the establishment of a new International Finance Corporation, to be set up as a subsidiary of the International Bank. As outlined in the Rockefeller Report, this corporation would make equity investments abroad, in participation with private investors and also would make loans to private enterprises without a government guarantee.

We feel that the objectives of this proposal are both sound and important. At the present time, of course, the Bank cannot, under its charter, use its own funds for such investments. But if the United States Government and other governments are willing to furnish capital for such a corporation, we would be glad to study the matter of broadening our operations to take in this type of activity.

Personally, I feel that an operation of this sort could be a great stimulus to the flow of private capital -- American capital, European capital, and capital in the developing countries themselves. I think the prospect of operating, as it were, in partnership with the World Bank would be an attractive one to many investors. A corporate instrument of this kind, I think, could be of great assistance to the development process in Latin America.

Even in the absence of any such instrument, it seems to me that direct investment can and should become of increasing importance in Latin America. As you know, there has been a fair amount of foreign equity investment in this part of the world for many years. It has gone primarily into the production of raw materials, such as oil, metals and so on, but also into manufacturing industries.

The history of such equity investment shows some rough spots. The depression of the 1930's, - with the crash of commodity prices, the defaults on loans, and mutual hostility between business and government - brought to focus an antagonism toward foreign investment. The fact that there had been careless lending in the '20s - bad loans that made even the good ones difficult to repay - certainly did not help matters. As a result of all these factors, legislation was passed in many Latin American countries limiting investors' rights and generally restricting foreign investment. At the same time, other measures, such as the nationalization of utilities, added to general dissatisfaction on the part of American capital.

I think one hopeful sign is the way in which this situation seems to be clearing up in a number of countries. A gradual change has taken place in the general attitude of Latin America toward equity investment. There is a growing realization in many of these countries that direct foreign investment can be of great value to their development. We have had assurances of more favorable legislation in various countries dealing with such matters as transfer of profits and general investors' rights. The climate in Latin America is becoming far more receptive toward foreign capital. I am confident that the possibilities for fair and equitable treatment of such capital are improving.

In short, although Latin America continues to have its basic economic problems, it also has its opportunities. Let me assure you that the International Bank, for its part, will act to develop and increase these opportunities in every way that it can.

Now in the few minutes remaining, if the Latin American delegates will bear with me, I should like to give you a very quick description of the more general operations of the Bank. We have been in business about five years. We have already made a substantial amount of loans - the total now comes to approximately one billion, one hundred million dollars. These loans, as in the case of the Latin American examples I have given you, have been made for the purpose of increasing production, developing resources and raising standards of living. They are devoted to these purposes in widely separated areas of the earth.

Our loans have been made in 20 of our member countries on five continents. Our total portfolio, naturally, is more varied than the Latin American part of it which I have been discussing with you. In Western Europe, we have helped provide financing for broad national programs of postwar reconstruction and recovery, involving many different kinds of enterprise -- agriculture, shipping, rail transport, steel manufacture and so on. In the less developed countries, we have been concerned with such projects as highways in Ethiopia, flood control in Iraq, power development in India and irrigation in Thailand.

In Turkey, there is a rough parallel to our consortium operation in Mexico; we have helped capitalize a new and privately owned industrial development bank in Istanbul which will operate for the benefit of small and medium-sized enterprise. To both Turkey and Iraq, we have sent comprehensive survey missions like those that have visited Colombia, Cuba and Guatemala.

The Bank is functioning more and more effectively in a kind of broad partnership with private capital. In 1950 for the first time, portions of our loans were sold to private investors without our guarantee. A feature of our recent transport loan to the Union of South Africa was the simultaneous action taken by a group of American banks to provide financing to the Union government for purposes related to that loan.

Our own dollar bonds have been well established in the American securities market. We have sold 300 million dollars' worth; and as some of you know, the demand of investors for our 50-million dollar issue of last February substantially exceeded the supply. An interesting feature of this particular issue was that \$3 million of bonds were bought by investors outside the United States. Furthermore, a total of more than \$20 million worth of our bonds have been purchased in Europe, Latin America and Asia, predominantly by central banks.

We have been exploring and indeed, have had some experience in, foreign markets. We have placed two issues, for the Swiss-franc equivalent of a little more than \$10 million in Switzerland. At an appropriate time, and as our needs require, we intend to enter other markets outside the United States. We also intend to be in the American market as often as our lending operations make it necessary for us to raise new dollar funds, perhaps two or three times a year. Barring unforeseen eventualities, I think both the Bank and its borrowers may rely on a continuous flow of funds from private investors, in the United States and elsewhere.

Gentlemen, I would like to close by stating what, to me, is a very strong belief. This matter of sound economic development is of the utmost importance --

to the United States, as well as to the underdeveloped nations. The entire free world is facing the blatant challenge of aggression. We are building up our military strength to meet this challenge. This is an urgent task. I believe that economic development is an urgent matter, too. It will, I think, play an important part in our defense. One of the most effective ways to meet this threat of the totalitarians is to help the millions of people in the underdeveloped areas to increase their human and material resources, to achieve a better way of life, and gradually to reach a more responsible and stable political and social balance. It is a slow process. It should be handled on a business-like, realistic basis, which demands that these people do all they can for themselves as the condition of outside aid.

I believe that development, measured by these standards, can go forward side by side with rearmament. It is not a question of "either -- or." The productive capacity of the United States, and of the industrial nations of the West, is great indeed. From an over-all point of view, I am confident that we can produce adequate supplies of materials needed for both military defense and for a reasonable amount of economic development. I believe that such development can be an important factor in the present struggle of the free world against its enemies.

Unnumbered press release

BANCO INTERNACIONAL DE RECONSTRUCCION Y FOMENTO

DISCURSO PRONUNCIADO POR ROBERT L. GARNER, VICEPRESIDENTE
DEL BANCO INTERNACIONAL DE RECONSTRUCCION Y FOMENTO
ANTE LA "FOREIGN TRADERS ASSOCIATION"
EN FILADELFIA, EL 13 DE ABRIL DE 1951.

Me complace hallarme aquí esta noche en compañía de muchos viejos amigos, y unirme a ustedes en la observancia de la Semana Panamericana. Como ustedes saben, los Cancilleres de las Repúblicas Americanas acaban de concluir una reunión en Washington. Los países al sur de los Estados Unidos han convenido en asumir mayores responsabilidades para su propia defensa y en acelerar la producción de materias primas útiles para ese fin. Los Estados Unidos, por su parte, han convenido en dar cuanta ayuda puedan en forma de bienes y asistencia técnica, con miras a incrementar el progreso económico de esos países. El desarrollo económico está considerado como parte importante de la preparación del Hemisferio.

Ese desarrollo económico es también la principal tarea del Banco Mundial. Nosotros funcionamos como empresa bancaria internacional y muchos de los países del Hemisferio son socios y accionistas del Banco. Nuestros primeros préstamos para países subdesarrollados fueron hechos a la América Latina hace más de tres años. Desde entonces, hemos invertido más de 250 millones de dólares en este sector del mundo. Muchos de los fondos - aun cuando no todos - han salido de la suscripción de capital hecha por los Estados Unidos o de la venta de bonos en este país. Como lo saben aquellos de ustedes que han sido abastecedores de nuestros prestatarios, buena parte de los préstamos han sido usados para pagar equipos y servicios norteamericanos.

Al pasarle revista a las repúblicas hermanas, se perciben a la vez problemas y oportunidades. A pesar de las graves tensiones del mundo, hay algunos factores básicos de la situación económica que son favorables. Aun antes del avance de la agresión comunista en Corea, la producción mundial y el comercio habían llegado a niveles superiores a los de preguerra. Los países latinoamericanos tienen parte en ello. Ya a mediados del año pasado, y a pesar de que estaban importando intensamente de los Estados Unidos, estuvieron en posición de eliminar los déficit del comercio en que habían incurrido, con relación a los Estados Unidos, en los años posteriores a la guerra.

Los sucesos de Corea han aumentado aún más estas cifras. Casi todas las repúblicas del sur han logrado precios más altos para sus productos agrícolas y sus materias primas. La prosperidad que habían comenzado a lograr en 1950, ha venido a sufrir ahora las consecuencias económicas de la agresión comunista.

Esta prosperidad, por placentera que sea en algunos aspectos, ha hecho resaltar la debilidad básica de la economía de muchas de las naciones latinoamericanas. Como ustedes bien lo saben, muchas de ellas dependen para la subsistencia nacional de sólo dos o tres productos. Por el contrario, para los suministros de muchos importantes elementos manufacturados, dependen de las importaciones. Son particularmente vulnerables a las fluctuaciones del mercado mundial. Cuando apenas hay nubes en el paisaje económico en otras partes, lo probable es que ya esté lloviendo en la América Latina.

La nueva prosperidad de los países del Hemisferio ha comenzado a incrementar ciertas presiones que pueden llegar a ser peligrosas. En la mayoría de ellos, el problema inmediato de la inflación requiere una acción vigorosa y valerosa. El problema ha de ceder hasta el punto en que la América Latina pueda mantener sus importaciones de bienes de consumo y de equipo productor. Hay alguna perspectiva favorable para ello, por lo menos a la luz de la política recientemente enunciada por el Gobierno de los Estados Unidos.

También infunde esperanzas el hecho de que las manufacturas europeas continúan en buena producción a precios de competencia. Pero los gobiernos del sur han de asumir ellos mismos la primordial responsabilidad de enfrentarse al problema de la inflación. En los tiempos que corren, han de necesitar especial enduranza y habilidad en cuanto a impuestos y otras medidas para mantener equilibradas sus economías. Al mismo tiempo, como lo dije hace pocos momentos, esta época parece presentar oportunidades excepcionales. Del crecimiento de las ganancias en cambio exterior y del incremento potencial del ahorro puede resultar el enriquecimiento de la renta nacional, que provean nuevos haberes de inversión y un sano desarrollo económico. La situación tiene aspectos atrayentes para los inversionistas extranjeros: Las mayores ganancias de estos países han venido a robustecer el crédito de los prestatarios de la América Latina y han reducido los problemas de cambio que han sido uno de los inconvenientes para las inversiones privadas.

Creo yo que ha llegado el momento en que deban darse los pasos necesarios para incrementar la actual prosperidad de los países del Hemisferio hacia un futuro de mayor estabilidad económica. Esto podría lograrse si las inversiones nuevas se aplicaran a aumentar la variedad de la producción latinoamericana; a incrementar la agricultura y la industria locales donde ello sea posible; y, en breve, a colocar estos países sobre bases económicas más holgadas con el levantamiento del nivel de vida. Si esto pudiera ir acompañado de

una mayor estabilidad política, podríamos confiar en que nuestras relaciones, tanto en la diplomacia como en los negocios, han de mejorar entre ellos y el resto del mundo.

Con ese preámbulo, quisiera volver los ojos hacia lo que el Banco Internacional está haciendo en la América Latina. Nuestro objetivo es ensanchar la base económica sobre la cual trabajan esos países. Estamos empeñados en ayudarles en dos formas prácticas. En primer término, proveemos parte del capital que necesitan: hacemos préstamos a los gobiernos y a otros prestatarios de la América Latina para proyectos urgentes. En segundo término, - y esto crece todos los días en importancia - aconsejamos a los países en la elaboración de sus programas generales de fomento. Cuando los gobiernos así lo solicitan, les ayudamos a conseguir ayuda técnica competente para elaborar sus programas de desarrollo económico, de acuerdo con las necesidades y capacidades nacionales.

Toquemos ahora el punto de los empréstitos. Hasta el momento, el Banco ha prestado 260 millones de dólares en la América Latina. En general, el propósito de estos préstamos ha sido ayudar a crear las facilidades básicas necesarias para aumentar la producción. Los préstamos están financiando la importación del equipo que se necesita para proyectos claves, para proyectos que pueden tener un efecto catalítico en muchos sectores diferentes de la economía nacional. En muchos países de la América Latina es fundamental la necesidad de aumentar la producción de fuerza eléctrica y buena parte de nuestros préstamos han sido a ello destinados - en el Brasil, Chile, Colombia, El Salvador, México y el Uruguay.

También hemos hecho préstamos para expandir las redes telefónicas del Brasil y el Uruguay; para la importación de maquinaria agrícola moderna a Chile y a Colombia; para ayudar a los industriales medianos y pequeños en México; y para construir una red eficiente de carreteras en Colombia.

Algunos ejemplos pueden ilustrar el efecto de cadena que un préstamo del Banco puede tener: Tomemos por caso un proyecto que estamos ayudando a financiar en El Salvador. El Banco hizo un préstamo de alrededor de 12 1/2 millones a una agencia de ese gobierno, para fuerza eléctrica. El proyecto duplicará la producción de electricidad en el país.

El préstamo se hizo efectivo en septiembre pasado. El sitio del proyecto es un ejemplo gráfico de cómo un plan puede convertirse en una realidad. En las riberas del Río Lempa, en una área que antes era la selva inhabitada, hay un

campamento en plena actividad. Como 2,000 obreros están empleados en la construcción de la presa y de la planta eléctrica que está siendo cavada en plena roca. Estos obreros manejan el equipo pesado que el préstamo del Banco ha financiado - mezcladoras de cemento, tractores y demás - que han sido llevado al área por una carretera construida especialmente con tal fin.

Los funcionarios del Banco que estuvieron allí recientemente informan que todo marcha de acuerdo con el programa. ¿Cuáles serán algunos de los efectos del proyecto? La nueva fuerza eléctrica suplirá la demanda atrasada de las industrias ya establecidas, y, en anticipación de un abastecimiento mayor de electricidad, ya empezó la construcción de la primera planta de cemento y de la primera planta de abonos. Y un nuevo Banco que se preocupará especialmente de las oportunidades de inversión, que han de surgir, ha sido establecido en San Salvador, la ciudad capital.

El aumento de fuerza eléctrica facilitará la irrigación mediante el uso de sistema de bombas, con lo cual, a su turno, se aumentará la producción agrícola. También podrán montarse nuevas unidades diesel con la economía de cambio extranjero resultante de la reducción en las necesidades de importación de petróleo. Un efecto indirecto, pero importante, ha de ser la mejora de transportes salvadoreños. La nueva carretera que va al sitio de la presa será extendida hasta la frontera con Honduras y será un eslabón más en la red interamericana de carreteras.

También producirá el préstamo resultados sociales. Hoy por hoy, una necesidad tan corriente como la del agua escasea en muchas ciudades. La nueva planta eléctrica hará posible mejorar las aguas y el alumbrado de las escuelas, los edificios públicos y los domicilios. Esto dará una idea de conjunto de cómo un empréstito puede afectar muchas fases de la economía de un país y su nivel de vida. Yo creo que el proyecto del Río Lempa ha de ser un factor importante para resolver la principal necesidad salvadoreña que es la diversificación de su vida económica.

En un país mucho más grande, el Brasil, el Banco ha colocado dos préstamos que montan a \$105 millones. En su mayoría este dinero está destinado al incremento de fuerza eléctrica. Aquí también los efectos de los préstamos han de ser el abastecimiento de una demanda atrasada de las industrias ya existentes y también el suministro de fuerza eléctrica para nuevos usos industriales y agrícolas. Por lo que hace a su uso final, los dos préstamos hechos al Brasil ofrecen un contraste interesante.

El principal fué hecho a la Brazilian Traction, Light and Power Co., una entidad particular muy bien administrada. Se destinó a financiar la adquisición de equipo necesario para ciertas atrevidas obras de ingeniería que incluyen el desvío de las aguas de algunos ríos y la construcción de una serie de esclusas y lagos artificiales de almacenaje de aguas. La Brazilian Traction sirve las áreas de Río de Janeiro y también de Sao Pablo, el Chicago del Brasil, que son los centros más industrializados y de más rápido desarrollo en toda la América Latina donde está concentrada la industria brasileña. Y si su crecimiento há de continuar, mayores serán las necesidades de fuerza eléctrica. El programa de expansión de la compañía, por consiguiente, trata de lograr un incremento del 50 por ciento en la capacidad generadora.

El otro préstamo para desarrollo eléctrico en el Brasil fué hecho a una entidad pública, la Compañía Hidroeléctrica de San Francisco, para un proyecto en una región completamente distinta de la interior. Allí será preciso construir una planta de fuerza sobre el gran Río San Francisco, en la parte nordeste de la república. El interior de esta región está muy poco desarrollado. La nueva fuerza irá a suplir las demandas de las ciudades de la costa. Los generadores adicionales que puedan instalarse en el futuro serán la base para una expansión considerable tanto de la actividad agrícola como la industrial en la costa y en el interior. El proyecto formó parte del programa general de fomento del gobierno brasileño.

Mirados en conjunto, los dos préstamos, que hemos hecho al Brasil han de tener grande influencia en la diversificación de la industria nacional.

Quisiera dar a ustedes también un ejemplo de los efectos producidos por otros tipos de préstamos, en Colombia, para la compra de maquinaria agrícola moderna. El crédito se concedió a la Caja de Crédito Agrario Industrial y Minero, una agencia del Gobierno. La Caja, a su turno, vende el equipo a agricultores individuales de todo el país. Algunos de nuestros funcionarios han estado sobre el terreno observando cómo funciona el asunto. Ellos nos informan que la maquinaria se usa en forma muy efectiva. La Caja no sólo está vendiendo equipo a los agricultores en las regiones donde se necesita de urgencia, sino que ha montado escuelas móviles para enseñar a los agricultores el manejo del equipo.

Como resultado, algunas áreas agrícolas de Colombia han sido convertidas a la producción y mecanizadas. En un área de las sabanas del norte, los métodos modernos han sido aplicados a la producción de algodón, cosecha todavía nueva en Colombia. Hoy día esta región recuerda el auge de las comunidades distantes de los Estados Unidos hace algún tiempo.

Pero ello no quiere decir que el Banco Internacional pueda prestarle a los países el progreso económico que necesitan, así como ustedes no pueden exportárselo. Lo más que podemos hacer, tanto ustedes como nosotros, es ayudarle a los países y a las empresas que se preocupan de su propio progreso. A este respecto, el Banco es muy insistente. Los 260 millones prestados en la América Latina, por ejemplo, no hubieran sido puestos a sus órdenes si los prestamistas, en todos y cada uno de los casos, no hubieran estado dispuestos a asumir la mayor parte de las responsabilidades en el éxito de los proyectos. Por regla general, ellos han invertido el equivalente de \$1.40 de su propio dinero, tanto en moneda local como en cambio exterior, por cada \$1 que el Banco les ha prestado.

Un sano desarrollo económico requiere que los recursos internos sean inteligentemente utilizados. No creemos que pueda lograrse un progreso importante y sistemático en los países latinoamericanos por procedimientos improvisados y carentes de método. Por ello el Banco estudia los proyectos aislados a la luz de su perspectiva general dentro del todo de una economía nacional. Nos gusta estar seguros de que los proyectos son de importancia fundamental - que no han de requerir ni capital ni esfuerzo humano que podrían emplearse mejor en otras empresas. Nos gusta convencernos de que la política económica de un país determinado es progresista y que crea un ambiente favorable para un determinado proyecto.

Este es un punto en el cual insistimos constantemente con los países miembros. Nos ha complacido cooperar con varios países latinoamericanos al hacer estudios comprensivos de sus potencialidades y probabilidades económicas. A Colombia, Cuba y Guatemala hemos enviado Misiones de expertos bajo el patrocinio conjunto del Banco y del respectivo Gobierno. Estas Misiones han investigado pormenorizadamente la situación económica para hacer una prescripción general de lo que es factible y práctico de realizar para mejorar la producción y el nivel de vida.

El Informe de la Misión enviada a Colombia, como ustedes saben, fué publicado a fines del año pasado; un Comité bipartito de eminentes colombianos fué nombrado para recomendar medidas específicas basadas en los estudios de la Misión, y algunas de estas recomendaciones - inclusive algunas sanas medidas contra la inflación - han sido puestas ya en marcha. El trabajo de las Misiones enviadas a Cuba y Guatemala está próximo a terminarse y dentro de pocos meses ustedes podrán estudiar los informes por ellas rendidos.

Hasta ahora, he venido hablando principalmente de lo que el Banco y los gobiernos miembros pueden hacer y están haciendo para proveer lo que básicamente constituye el fundamento de la industria. Es obvio que algo hay que construir sobre esos fundamentos. En último término, tiene que haber fábricas que usen la fuerza, plantas que procesen la mayor productividad agrícola y mercaderías que recorran las redes de transporte ya mejoradas. En estos campos de acción las inversiones y la iniciativa corresponden a las empresas privadas. Por lo que hace al Banco, este es un aspecto importante, quizá el más importante, de todo el proceso de desarrollo económico. El Banco puede poner su parte y los gobiernos la suya; pero ni uno ni otro pueden substituir la iniciativa individual - para que el campesino aumente su producción con la mejora de sus sembrados y de sus ganados; para el hombre de negocios que sabe que podría lograr mayores ganancias si produjera un artículo mejor. Tampoco podrían ni el Banco ni los países miembros rivalizar con los inmensos recursos de capital a disposición de las instituciones privadas y de los individuos.

Nos hemos preocupado mucho en el Banco de hallar la manera de ayudar a las empresas privadas en los países miembros. De acuerdo con la Carta, sólo podemos hacer préstamos a empresas particulares si obtenemos la garantía del gobierno respectivo. Hemos hecho préstamos de esta clase a grandes empresas privadas. Ahora nos preocupamos de ver cómo podemos poner el crédito al alcance de las empresas pequeñas a través de instituciones locales de crédito.

Creemos que en México hemos llegado ya a una buena fórmula para ayudar al pequeño hombre de negocios. Hemos abierto un crédito a un consorcio de ocho bancos mexicanos y a la Nacional Financiera, agencia oficial del Gobierno. Esta línea de crédito será usada para financiar las importaciones necesarias para que las empresas de negocios puedan llevar adelante sus programas de expansión. Nuestros fondos serán re-prestados por los bancos mexicanos a entidades privadas y los mismos bancos de México se harán cargo de financiar las sumas en moneda local necesarias para complementar las empresas. De acuerdo con este arreglo, el consorcio releva al Banco Internacional del trabajo de analizar un crecido número de pequeñas solicitudes de préstamos. Los prestatarios individuales obtendrán del consorcio cantidades entre \$25,000 y \$1,000,000. Nos ha llevado a realizar esta operación el convencimiento de que las empresas pequeñas y medianas pueden contribuir en forma significativa al desarrollo económico de un país.

Pero además de lo que el Banco puede hacer en la actualidad para ayudarle a las empresas privadas, una de las principales necesidades de los países latinoamericanos es obtener suficientes cantidades de capital de inversión, procedentes tanto del extranjero como del interior del país. Algunas recomendaciones interesantes en extremo para llenar esta necesidad fueron hechas recientemente por el International Development Advisory Board que encabeza Nelson Rockefeller. El informe de este grupo sugiere el establecimiento de una nueva Corporación Financiera Internacional, a manera de subsidiaria del Banco Internacional. Como lo dice el informe de Rockefeller, esta corporación haría inversiones directas en el exterior, en participación con inversionistas privados y también haría préstamos a entidades privadas sin la garantía de los gobiernos.

En nuestro sentir los objetivos de esta propuesta son a la vez acertados e importantes. Desde luego, el Banco no puede, actualmente, de acuerdo con la Carta, usar sus fondos para esta clase de inversiones; pero si el Gobierno de los Estados Unidos y otros gobiernos desearan suministrar el capital para una corporación de esa índole, nos proporcionaría el mayor grado estudiar la manera de ampliar nuestras operaciones incluyendo esta clase de actividades.

Personalmente, yo creo que una operación de esta clase habrá de constituir un gran estímulo para el flujo del capital privado - capital americano, europeo, y de los mismos países por desarrollar. Creo que la perspectiva de trabajar con el Banco Mundial como socio es atrayente para muchos inversionistas. Un instrumento de cooperación de esta índole, en mi sentir, sería utilísimo para el proceso del desarrollo latinoamericano.

Aun sin tal instrumento, me parece que las inversiones directas pueden y deben crecer en importancia en la América Latina. Como ustedes saben, desde hace años, ha habido una apreciable cantidad de inversiones de capital privado en este sector del mundo. En primer término, el capital se dedicó a la producción de materias primas tales como petróleo, metales, etcétera; pero también buscó las industrias manufactureras.

La historia de estas inversiones tiene páginas lamentables. La depresión de 1930 - con el desastre de los precios, la moratoria de los empréstitos y la hostilidad mutua entre los hombres de negocios y el gobierno - produjo un antagonismo hacia la inversión extranjera. El hecho de que se concedieran préstamos descuidados en la década de los 20 - malos empréstitos, que hicieron que aun los buenos fueran difíciles de pagar -, no contribuyó, en verdad, a facilitar el problema. Como resultado

de todos estos factores, muchos países latinoamericanos tomaron medidas limitativas de los derechos de los inversionistas y, en general, restringieron las inversiones extranjeras. Asimismo, otras medidas tales como la nacionalización de las utilidades, contribuyeron al descontento general por parte del capital estadounidense.

Pero creo que hay motivos para el optimismo al ver la manera cómo la situación parece estar aclarándose en muchos países. Un cambio gradual se ha verificado en la actitud de la América Latina hacia la inversión directa. Las gentes se dan cuenta paulatinamente más clara de que la inversión directa extranjera puede ser de gran valor para su desarrollo. Se nos ha asegurado que varios países adoptaran legislación favorable con respecto a asuntos tales como la exportación de utilidades y los derechos generales de los inversionistas. No hay duda de que allí ha mejorado el clima receptivo del capital extranjero y yo confío en que las posibilidades de un tratamiento equitativo y justo de ese capital han de mejorar.

En breve, a pesar de que la América Latina continúa teniendo problemas económicos básicos, también presenta oportunidades. Pueden ustedes estar seguros de que el Banco Internacional, por su parte, ha de trabajar constantemente para desarrollar e incrementar estas oportunidades.

Ahora, y para concluir, quisiera que los Delegados de la América Latina me presten su atención para hacerles una descripción de la forma cómo el Banco funciona, en general. Estamos en el quinto año de nuestros trabajos. Hasta el presente hemos hecho préstamos en cantidades sustanciales que suben aproximadamente a 1,100 millones de dólares. Estos préstamos, como en el caso de los ejemplos que he dado de la América Latina, han sido hechos con el propósito de incrementar la producción, desarrollar los recursos naturales y levantar el nivel de vida. A estos propósitos han sido encaminados los préstamos hechos en áreas en todos los rincones del mundo.

Veinte de los países miembros en cinco continentes están utilizando nuestros préstamos. En otros continentes hemos hecho préstamos de índole muy diferente a los de la América Latina. En la Europa Occidental contribuimos a financiar amplios programas nacionales de reconstrucción de postguerra que han abarcado muchas empresas diversas - agricultura, navegación, transporte férreo, manufacturas de acero, etcétera. En países menos desarrollados nos hemos ocupado de proyectos tales como las carreteras de Etiopía, el control de inundaciones en Iraq, el desarrollo hidroeléctrico de la India, y la irrigación de Tailandia.

En Turquía hemos creado un consorcio un tanto similar al establecido en México; hemos ayudado en la capitalización de un nuevo banco privado para el desarrollo industrial en Estambul, que ha de funcionar en beneficio de las empresas de tipo medio y pequeño.

Tanto a Turquía como a Iraq, hemos enviado Misiones para estudios comprensivos parecidos a las que enviamos a Colombia, a Cuba y a Guatemala.

El Banco funciona cada vez más en una especie de amplia asociación con el capital privado. En 1950, por la primera vez, parte de nuestros préstamos fueron vendidos a inversionistas privados sin nuestra garantía. Un aspecto interesante del préstamo que hicimos recientemente a la Unión de Sud Africa para transporte, fué la acción simultánea tomada por un grupo de banqueros americanos para financiar en la Unión ciertos proyectos del gobierno relacionados con el nuestro.

Nuestros bonos en dólares han conquistado ya un mercado seguro en los Estados Unidos. Hemos colocado 300 millones de dólares; y, como algunos de ustedes saben, la demanda de los inversionistas para la emisión de 50 millones de dólares en febrero pasado, sobrepasó en mucho la oferta. Un aspecto interesante de esta emisión fué que 3 millones de bonos fueron comprados por inversionistas de fuera de los Estados Unidos. Además, un total de más de 20 millones de bonos nuestros han sido colocados en Europa, en la América Latina y en Asia, en su mayoría entre los Bancos Centrales.

Hemos venido explorando y creemos tener ya alguna experiencia en los mercados extranjeros. Hemos colocado dos emisiones en Suiza, en francos suizos, equivalentes a un poco más de 10 millones de dólares. A su debido tiempo, y a medida que las necesidades así lo requieran, hemos de intentar la venta de otras emisiones fuera de los Estados Unidos. También nos proponemos acudir al mercado americano cada vez que nuestras operaciones de préstamos lo hagan necesario para aumentar las disponibilidades en dólares. Esto ha de ocurrir una o dos veces por año. A menos que hayan circunstancias imprevisibles hoy, yo creo que tanto el Banco como sus prestatarios pueden confiar en un flujo continuo de fondos de los inversionistas privados, tanto en los Estados Unidos como en otros países.

Quisiera terminar relatando algo que para mi constituye una firme creencia. Esta cuestión de lograr un sano desarrollo económico es de la mayor importancia, tanto para los Estados Unidos como para los países subdesarrollados. Todo el mundo libre está hoy expuesto a la agresión. Estamos incrementando

nuestra preparación militar para afrontar el reto y eso es tarea urgente. Yo creo que el desarrollo económico también es cuestión urgente y creo que ha de desempeñar un papel importante en la defensa. Una de las formas más efectivas para contrarrestar el peligro totalitario es la de ayudar a millones de gentes en las áreas subdesarrolladas a incrementar sus recursos humanos y materiales, a conseguir una vida mejor, y a llegar gradualmente a un equilibrio más responsable y estabilizado en lo político y en lo social. Todo esto implica un lento proceso que debe ser manejado con criterio realista, que hace imperativo que todos hagan su esfuerzo máximo como requisito para recibir la ayuda exterior.

Yo creo que el desarrollo, mediante estas medidas, puede seguir adelante al par que al rearme. No se trata de escoger entre uno y otro. La capacidad productiva de los Estados Unidos y de las naciones industriales de Occidente es muy grande, en verdad, desde un punto de vista general. Yo confío en que hemos de poder producir cantidades adecuadas de los materiales necesarios tanto para la defensa militar como para el desarrollo económico. Yo creo que ese desarrollo es factor importante en la lucha en que está empeñado el mundo libre contra sus enemigos.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Summary for the Press of Speech by Robert L. Garner, Vice-President of the International Bank for Reconstruction and Development, to the Fifth Mississippi Valley World Trade Conference, New Orleans, La.

April 21, 1950, 2 P.M.

New Orleans, April 21: Capital investment for increasing production throughout the world is of vital importance to the future of foreign trade, Robert L. Garner, Vice-President of the International Bank for Reconstruction and Development, said here today. Mr. Garner spoke before the Fifth Mississippi Valley World Trade Conference, at the Roosevelt Hotel, on the International Bank's role in foreign trade.

Historically, Mr. Garner said, increased investment in the development or rehabilitation of a country's productive resources brings about a higher level of domestic trade and of trade with the rest of the world. He said this is supported by the fact that increased production raises living standards, which in turn stimulates the demand for and the purchase of goods and services both at home and abroad. In addition, the ability of a country to meet the foreign exchange costs of its imports is improved through the initiation or expansion of production of goods and services with a market in other countries.

One of the principal purposes of the International Bank, he pointed out, is the promotion of a long-range balanced growth of trade. The Bank's interest in trade, he declared, is not confined to one or a few countries but is world-wide in scope. In working toward its objectives, Mr. Garner added, the Bank makes direct loans out of its own resources to aid in the reconstruction and development of its forty-seven member countries. It also encourages and assists similar investment by private investors.

World Bank loans, he stated, are limited to specific projects for productive purposes, and are not general credits. A total of twenty-four loans amounting to about \$744 million have been made by the Bank in thirteen countries

since its first loan was made three years ago. Proceeds from these loans have been used by the borrowers to purchase and import equipment for such basic industries as steel, electric power, railways, shipping and air transport. Machine tools for production of finished products, and agricultural machinery, also have been bought with Bank loans. In discussing the purposes to which the Bank's loans have been put, Mr. Garner noted that the reconstruction and development of basic production, on which further development may be built, has been one of the major aims of each commitment.

As an example of how the Bank's loans affect foreign trade, Mr. Garner cited a \$12.5 million loan to Finland. A major part of the loan, he said, is being used by Finland to modernize and reconstruct her woodworking industries, on which the country relies for the principal part of her foreign exchange earnings. Mr. Garner pointed to the twofold effect of this loan on trade, which by helping to increase the efficiency and output of Finland's woodworking industries is increasing the country's export potential and its ability to pay for imports.

The Bank's loans also have a more immediate effect on international trade, Mr. Garner observed. Financing by the Bank covers the foreign exchange costs of the purchase and importation of goods for productive projects in member countries where the Bank has made loans. The largest percentage of loan disbursements have been spent in the United States, but Bank funds have flowed into many other countries as well.

Mr. Garner said that the World Bank is doing its share to increase world production and trade, but that much more capital investment is needed than the International Bank can supply. Equity capital investment from the United States, he declared, is particularly necessary to increase production to a satisfactory level abroad. Without such an increase in production and an opportunity for other countries to compete in our markets, Mr. Garner contended, it may be impossible to overcome the enormous trade imbalance between the dollar area and

the rest of the world without a serious breakdown in the flow of exports from the United States. If we wish to remain a great trading nation, then the United States must import on a higher peacetime level than ever before, because without a high level of imports to make exchange available to other countries we cannot possibly maintain a high level of exports, Mr. Garner asserted.

Mallon: Mr. Garner, you've just returned from a trip to some very interesting and important areas— You went to Egypt, Turkey, Iran, Greece, Algeria, and Morocco.

What was the purpose of your trip?

Garner: The purpose was very simple— It was one of the general observation trips which we at the International Bank try to make from time to time, to give us personal knowledge of conditions in areas of member countries— and background of the problems they are facing. My trip was not to negotiate specific loans. I would like to point out, incidentally, that the purpose of the International Bank is not merely to make loans. We have of course made ^{substantial} considerable loans to date— some 650 million dollars in all, for both reconstruction and development— but another very important role of the Bank is to keep in close touch with general economic and financial conditions in all areas, and to give our member countries what advice and assistance we can. I wanted to see the problems of the Middle East at first hand— to discuss them with the economic and financial officials who deal with them on the spot.

We were received everywhere with the greatest courtesy. The people of the Middle East are naturally courteous. And they have the feeling that the Bank is an important institution for them. There was considerable indication, too, that the people of the Middle East want our advice, as well as financial assistance.

I think we crowded as much as could be crowded into a short period.

Malloni: Do you have any general conclusions, Mr. Garner, which you think apply to these countries of the Middle East as a whole?

Garner: Looking at it as a whole, ^{it} ~~I believe that this~~ is a very important region of the world. I am convinced that there is a growing desire and realization of the need for economic development— both to increase the economic strength of the countries, and to improve the condition of the masses of people. Of course, in any relatively underdeveloped country, sound and effective development is a long and a hard job. The countries of the Middle East need a certain amount of financial assistance from abroad, but even more they need to get their own finances on a sound basis— to provide the amounts of local currencies that must play the major part in each country's own development program. Generally, I found a realistic realization of these problems among all the officials I talked to. And a refreshing vigor and determination. ^{most of} ~~These~~ officials have a very ^{toward the Bank.} reasonable attitude. They don't expect the Bank to do unreasonable things. They are not thinking in terms of huge, impractical projects— but, on the whole, in terms of practical plans.

It's a fascinating area. In general, these countries are primarily agricultural. I should say that the main development needs of the Middle East

are for irrigation and power projects; and in some cases for transportation -- roads, railroads, ports-- things of that sort.

Mallon: How about loans from the International Bank, Mr. Garner? Would you say that there are any possibilities of the Bank's making loans to any of the countries you visited?

Garner: Yes-- if you think in terms of a period of months, during which time projects could be well prepared. Take the case of Egypt. It has a long tradition of balanced budgets-- and some very interesting development projects. What is needed there most of all is a coordination of these projects-- so that they pull together to benefit the country's economy as a whole. We saw the Cairo and Alexandria areas-- and got up the Nile to Luxor. Egypt is an ^{primarily} agricultural country, and the basic problem of agriculture is more water. In the Upper Nile, there are several projects of irrigation which are quite interesting. One involves irrigation of land which is fertile during the flood season, but then dries up for six months. The plan is to tap underground water supplies to provide irrigation for the dry season. It's a five to ten-year project. The amount of dollars required would be small-- but it appears to be a good project which would have a multiplying effect on the whole economy.

As for Turkey-- one cannot help be impressed by the deep seated vigor and determination of its people to make it a stable and economically active nation. And Turkey has extensive natural resources. One important requirement there is to improve the Turkish ports, in order to cut the costs of handling exports and

imports. The Turkish government has already submitted some projects to the

Bank. These include port development, power, development — which includes

certain agricultural and mining projects.
~~production of power, irrigation, and flood control, and there are also some~~

~~mining projects.~~ I might tell one story about my visit to Turkey which seems

to me indicative. The day before I left Ankara, I called on President Inonu,

expecting to have a fifteen minute courtesy call. When I tried to leave,

he asked me if I were bored, so I stayed one hour and three quarters, and had

an intensely interesting discussion. Though the president claimed to know

nothing about finance, he seemed to me to have some pretty sound concepts.

Nallor: Well, Mr. Garner, you said before that aside from actual loans, there is other

assistance that the Bank gives its member countries. What is the Bank's role

in this regard in the Middle East?

The general pattern of seeking advice from the Bank
Garner: ~~The Bank actually has Missions at the present time in both Egypt and Turkey. But~~
ran through our trip.

~~let's consider some of the other countries. In Iran I found the government actively~~

interested in land reform, and in making practical plans for its seven-year

development program. The Iranian government expects to be able to obtain local

currency for most of its program, and the Bank is not at present considering

specific loans to Iran. We have, however, a clear understanding that the Bank

will be glad to work with Iran, keep in touch with its development, give any

advice when asked, and be prepared to consider their projects when and if they come to the Bank for financing. Already the Bank has had some role in Iran's program. At the request of the Iranian government, it recommended a private engineering firm, which at present is working out the details of the seven-year plan.

No French who have gone there.

As for Algeria and Morocco — I was deeply impressed with ~~these people~~,¹

They are pioneers. They are confident, active, and have a high degree of competence in technical and managerial matters. Some very interesting power and irrigation projects are under way in Algeria and Morocco. One involves sending water through a mountain for sixty miles and irrigating 250 thousand acres of coastal plain. In this area, again, the Bank stands ready to give what technical advice it can — and to consider granting loans if and when sound projects are brought to its attention.

To sum up my trip — I think there is now a greater realization in the Middle East than ever before of the potentialities of economic development. To make this development a reality there is need for some money from abroad. But even more there is need for help in working these projects out — need for technical and financial advice. I believe the Bank can gain the confidence of these people in the Middle East, and can play a helpful and constructive role.

Mallon: Thank you, Mr. Garner.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Address by Robert L. Garner, Vice President of the
International Bank for Reconstruction and Develop-
ment, before the Congress of American Industry
National Association of Manufacturers, Wednesday,
December 1, 1948

FOCUS ON WORLD FINANCE

To find a focal point in world finance one naturally gravitates to the strongest financial power -- the United States. Because of its preponderance of resources -- financial and economic -- the effect of its policies and actions radiates throughout the world and influences events everywhere. The United States wage and price level, the tug between inflationary and deflationary forces, taxation and the federal budget, the rates of capital expansion -- all of these and a multitude of other factors have a decisive impact both at home and abroad.

However, in order to bring a focus to bear, I shall today deal with the effect on world finance of the one question which in my judgment is of overriding importance -- the relationship between what America buys and what it sells abroad.

The course of American foreign trade is part and parcel of the developments in domestic economy and in foreign policy; it will have a vital influence on recovery in Europe and on the rate of economic development in Latin America and the East; it ties into national security. Let us take a look at it, using round figures for the sake of simplicity.

In 1947, a world short of all manner of things bought 19-1/2 billion dollars of American goods and services, whereas the rest of the world sold to this country only 8-1/2 billion dollars. This 11 billion dollar gap represented the "dollar shortage" which has become a byword in every tongue.

You can't balance 8 against 19, yet we all know that the total of assets and liabilities must somehow balance. In 1947 the balance was arrived at by other countries turning over to the United States 4-1/2 billions of their gold and dollar assets and receiving grants and loans from the United States in the amount of 6-1/2 billions.

In 1948, it is indicated that United States exports will be reduced to the neighborhood of 17 billion dollars and imports will increase to about 10 billion. The gap is narrowing, but still 10 does not balance against 17. The deficit is being covered primarily by ERP and other foreign aid, and by the liquidation of further gold and dollar holdings of the other countries.

How long can this go on? Foreign owned gold and dollar investments are near the bottom of the barrel, and it seems unlikely that the United States Government will or should continue over a protracted period to provide extraordinary assistance to the rest of the world of the kind and in the amounts now being furnished.

There are only three ways that in the long run a balance between what America buys and sells can be struck, and in practice the balance will probably result from a combination of all three. The first is by an increase in American imports, both goods and services, from the rest of the world. The second is by a decrease in American exports. The third is by the flow of United States funds abroad. Let us consider each of these.

First as to American imports. This country is now at its highest level of prosperity. Because of lower American tariffs, greater supplies of foreign goods and the increased spending of tourists, the value of American imports will, as I have indicated, probably be in the neighborhood of 10 billion dollars this year. But this figure of 10 is still a long way from the 17 of exports. It seems clear that unless there are further changes in the tariff level and in the traditional American attitude towards imports, the balance of trade in the future is more apt to be reached by a drastic reduction in the 17 billions of exports than by an increase in the 10 billions of imports. Yet approaching a balance at a high figure rather than a low figure would appear to be in the interest both of the United States and the rest of the world.

Let's take a look now at American exports, the second factor in the trade balance. We all say that Europe should increase its production. No disagreement on that. Also, we agree that Europe must increase its exports. Do we realize, however, that at least for the near term, such an increase in production will reduce the amount of American exports to Europe? Likewise, do we realize that increased European exports to other countries will replace certain goods now being supplied from the United States? Currently, when the domestic demand for steel, agricultural implements and certain other equipment is in excess of the supply, it may be to American advantage to keep these things at home, but this country is now beginning to produce a surplus of certain types of goods and any reduction in foreign demand will not be welcomed by those who have such goods to sell. In fact, we are already seeing evidences of attempts to use ERP funds to absorb these surpluses, both agricultural and industrial, whether or not they are what Europe needs most from the United States to speed its recovery. ERP was set up with taxpayers dollars to give Europe a chance to get back on its own feet. It makes no sense to use these dollars except for those things most essential to this purpose.

To American ears the word discrimination has an ugly sound. Theoretically at least, opinion favors nondiscrimination in trade. But let's be realistic. Most of us have to discriminate or, to put it another way, be selective in our personal trading habits. Grocery bills and repairs to the house must sometimes take precedence over a new car or a mink coat. So the wife as well as the furrier may claim that they are being discriminated against. Similar necessity faces the countries which today have many needs and desires and relatively few dollars. If they are to move towards balancing their trade, particularly in the dollar area, they must selectively control, that is discriminate, as to what they buy and where they buy it.

It is true that the relative balance of international trade and finance in the last century was achieved with a minimum of controls. This was largely because Great Britain, the dominant trading nation of the world, found it to her interest to promote imports as well as exports and to send a tremendous and steady flow of capital abroad. The international financial and economic machine ran with sufficient smoothness to enable a practical balance to be obtained through the market place. Unfortunately, today no such natural balance appears in the offing. The damage and dislocations from the war and from the lack of a real post-war peace have

been so great that under existing circumstances it seems necessary for countries which are short of dollars arbitrarily to limit their dollar purchases to essential goods they cannot buy elsewhere and in amounts for which they have dollars to pay. Call this discrimination if you will, but it is no greater than that which would accompany a customs union or preferential tariff area within Western Europe, which seems to be ardently supported by American opinion.

Some of the criticisms of discrimination are contradictory. I recently read an article which began by complaining bitterly that certain European countries are discriminating against some American goods. A bit later on the author complained that these same countries are spending dollars furnished by America for luxuries instead of for food and equipment. We can't have it both ways.

However, even assuming the most prudent foreign buying in American markets, it seems hardly in the cards to expect an absolute balance of American foreign trade in the foreseeable future. Economically, America has so much and produces so much compared to any other country or area that for some time American exports will tend to exceed American imports. At the best, any substantial increase in the present high volume of American imports will probably be gradual. To force a balance by drastic cuts in American exports would probably have a substantial effect on the economy and be resisted by many people in industry, agriculture and labor. A complete closing of the gap in trade in a short period may prove to be both economically undesirable and politically unfeasible for the United States.

Now to consider the third method by which foreign trade is balanced. So long as a gap continues, it must be covered either by extraordinary assistance from the United States Government or through the export of private American capital. In the past, wealthy nations have exported capital and in general they have received substantial benefits.

We in the International Bank see many projects, particularly in the under-developed areas, which would be attractive to private investment if the general political and economic climate should improve, and one of our principal purposes is to stimulate such investment. Our own resources provide only a small part of what is needed. The Bank can, however, act as a trail blazer for private capital and through helping its member countries put their economic and financial affairs on a more stable basis promote a climate in which such investment may prosper. However, I must say that the amount of private American capital which can be expected to flow abroad during the next decade will not cover a gap in the balance of trade of the present size. Unless public funds in large amounts continue to pay for exports, the volume of American exports and imports must come closer together.

The American willingness to help less fortunate peoples abroad, as evidenced particularly by the European Recovery Program, springs from generosity typical of this country. But generosity alone can wear itself out. The question whether the foreign aid policies are justified on the grounds of American security involves political and military matters on which I should not speak as an officer of the International Bank.

I shall merely say that in my opinion ERP is a measure of intelligent self interest and that no one should expect this country to continue to bear the heavy burdens involved in foreign aid except as the people believe that it protects and promotes their own well-being -- their economic and financial interests and their security.

However, I do wish to emphasize the practical necessity of working out a solution to the balancing of foreign trade and finance along lines which are in accord with and not contrary to the basic objectives of U.S. foreign policy. How it is done will greatly affect conditions in this country and the course of events overseas.

Now to summarize. The United States is selling abroad a tremendous volume of goods, due to the preponderance of its own production and to abnormal postwar demands. It is buying from abroad much less than it sells. The difference is being paid for by funds largely supplied by the government out of the pockets of the taxpayers.

If the United States is not to continue to give away great amounts of the products of its fields and factories, it must approach a closer balance of its foreign trade. It can either buy much more or sell much less or do some of both.

Increased imports will compete with some of the products which you make, and at least in the short run, may adversely affect the business of some of you. On the other hand, every dollar of additional goods purchased in this country from foreigners means that they have another dollar to spend for American goods. So as a group you will probably benefit.

American industry believes generally in high volume and competition. Probably the greatest good for the greatest number lies in approaching a balance of trade, not at a low but at a high level. If this is achieved, it may not only help to maintain our prosperity here, but it will assist the rest of the world to regain financial and economic stability. This is my justification for treating the trade balance of America as a focus of world finance.

NEWS *from* AMERICAN LIFE CONVENTION

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Release

^{A.}
11 P.M., Monday, October 4, 1948

DIGEST of address - ROBERT L. GARNER, Vice President, International Bank for Reconstruction and Development, Washington, D.C., at the 43rd Annual Meeting of the American Life Convention, Edgewater Beach Hotel, Chicago, October 4--"The International Bank, Its Functions and Lending Policies."

Chicago, Ill., Oct. 4--The real measure of the International Bank's effectiveness may be less in the amount of money it lends than in the work it is doing to encourage suitable conditions for private investments abroad, Robert L. Garner, Vice President of the Bank, told the 43rd annual meeting of the American Life Convention here this morning.

"In all of our discussions we emphasize that the major effort in the development of any country must be made by that country itself", Mr. Garner said, "both in the handling of its own affairs and in supplying the major part of the capital required. It is our firm conviction that private capital must be looked to for most of the necessary financing and we accordingly urge the development of conditions in the country which will attract foreign private capital, particularly in the form of equity investments. Such investment has the specific advantage of providing not only funds but the necessary technical and managerial skills as well.

"We are exploring every opportunity open to us to facilitate the flow of private foreign capital whether by financing part of the cost of a project, the

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remainder of which is to be financed by private investors, or by granting limited guarantees such as a guarantee of the transfer of interest. We hope to be able to contribute to the international flow of private capital by encouraging the development of principles and practices which are fair both to the foreign investors and to the countries in which investments are made.

"So far, the International Bank has made a modest but satisfactory profit. It has succeeded in operating free of political pressures and we are confident that the securities issued by the Bank or sold with its guarantee represent prime investments for insurance companies and other institutions. We feel justified in taking considerable satisfaction in the solid if modest accomplishments of the Bank towards assisting in the reconstruction of the war-devastated nations of the world and towards stimulating increased production of goods which the world urgently needs."

In reviewing the Bank's history since its beginning in Bretton Woods in July, 1944, Mr. Garner termed the Bank more a "long term investment company" than a bank in the usual sense. He said that its first loans were all made to governments or to government corporations but that recently it had made its initial loan to private enterprise. The borrowers were four Dutch shipping companies and the Bank's loans enabled them to purchase six merchant ships.

"Although the Bank expects to push forward with additional loans in Europe," Mr. Garner declared, "we believe that the emphasis in our operations is shifting towards the undeveloped areas -- Latin America, Asia, Africa and the Middle East. The problem of development in these areas is both a fascinating and a difficult one, to be measured in decades and not years. The inherent

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difficulties include the lack of economic, financial and in some cases political stability; the lack of local capital, of technical skills and of trained management and a lack of realistic planning. To overcome these difficulties requires much more than making available large amounts of foreign loans.

"The essential requirements for European recovery are far beyond the capacity of the Bank to finance and substantial assistance from other sources is necessary. This assistance is granted in the form of the European Recovery Program which in my judgment is at once farsighted, daring and realistic. We are, of course, in close consultation with the Economic Cooperation Administration to determine how Bank loans may best supplement the ERP program.

"Since ERP funds are being used primarily to furnish urgently needed food, fuel and raw materials, it appears probable that our role will be primarily that of financing capital equipment imports for purposes of specific productive projects. We believe that a number of sound loans of moderate size can be worked out in certain of the countries participating in the recovery program.

"During the early summer I spent six weeks visiting a number of countries in Western Europe. Much has been accomplished in physical reconstruction and increase of production. It is a striking fact, however, that although industrial output in most of these countries has approached or exceeded pre-war levels, they are far from having achieved recovery.

"In the post-war Europe, pre-war standards of production and trade are almost irrelevant. What is needed, I am convinced, is a fundamental and far-reaching readjustment in the entire structure of Europe's economy. There

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must be new and bold concepts if Europe's fundamental weaknesses are to be corrected and new sources of strength to be provided. I believe one might say that the basic objective of ERP is to enable Europe by its own efforts to achieve just such adjustment of its trade and productive mechanism."

END

~~September 30, 1948~~

THE INTERNATIONAL BANK - ITS FUNCTIONS AND LENDING POLICIES

Address by Robert L. Garner,
Vice President, International
Bank for Reconstruction and
Development, at American Life
Convention Annual Meeting,
October 4, 1948

(7m)

The International Bank for Reconstruction and Development was set up at Bretton Woods in July 1944. It was organized with headquarters in Washington and began its loan and borrowing operations in the summer of 1947. Its purpose is to provide financing for productive purposes, to assist both in the reconstruction of war damaged countries and in the development of the resources of the less well developed areas of the world.

This Bank represents a unique operation in international finance. It might more accurately be called a long term investment company rather than a bank in the usual sense. Its authorized capital of some \$8 billion is subscribed by ⁴⁸~~47~~ governments which include all the more important countries with the exception of Russia, Sweden, Switzerland, Argentina, Germany and Japan. However, the Bank is managed along the lines of a private enterprise, and not as a political organization. Each stockholding government is represented by a Governor, usually the Secretary of the Treasury, Finance Minister or Head of the Central Bank. Last week the Board of Governors held its Third Annual Meeting in Washington.

Almost all the powers of the Governors have been delegated to the 14 Executive Directors of the Bank. The five largest stockholders -- United States, United Kingdom, France, China and India -- each appoint one Executive Director, and the remaining Directors are elected by the other member countries. The voting power of each Director depends primarily upon the size of the capital

subscription of the country or countries he represents.

The management is made up of a staff of some 400 people representing 23 nationalities headed by President John J. McCloy, the former Assistant Secretary of War. The staff is not subject to any governmental controls, owes its allegiance only to the Bank, and has been selected on the basis of merit without regard to political influence. It is the responsibility of the management to operate the Bank and to develop recommendations on loans and on other important matters for the approval of the Directors, just as in the ordinary corporation.

As to the capital of the Bank, the total subscribed amount is the equivalent of \$8,336 million. Only 20% or \$1,667,000,000 of this, however, can ever be used for lending. This is made up as follows. Each member country paid in 2% of its subscription in actual dollars, which, disregarding certain small authorized deferments, amounts to \$166,000,000. In addition, each member has put up 18% in its own currency. Thus the 2% of all the members plus the 18% of the United States provides us, again disregarding the deferments, a paid in dollar capital of \$738,000,000. In addition, the members other than the United States have paid the equivalent of \$929,000,000 in their own currencies. This combined amount, or the equivalent of \$1,667,000,000 represents our potential loanable capital. However, the Bank cannot actually use the 18% portion of any member's capital subscription except with its consent. Up to the present the United States has made available its full amount and Belgium a token amount equivalent to \$2 million. The difficult financial position of most countries accounts for the fact that they have not yet made the 18% portion of their capital available, but we are hopeful of gradually getting the necessary additional consents.

The 80% balance of the capital, or the equivalent of \$6,669,000,000, is available on call of the Bank for the sole purpose of meeting its own obligations.

Thus we have as a protection for the Bank's securities the obligation of 47 member countries to put up the equivalent of more than six and a half billion dollars if it ever should become necessary. Of this, the obligation of the United States is \$2,540,000,000. The Bank has an unconditional call on these funds. Thus the bonds issued by the Bank have behind them extraordinary protection.

I would now like to review briefly the operations of the Bank.

In the first place, we have supplemented our loanable capital funds by borrowing \$254 million. As you know, in July 1947, we sold two issues of bonds in the United States for a total of \$250 million. Early this year, we also sold to the Bank for International Settlements in Basle, Switzerland, an issue of Swiss franc bonds equivalent to about \$4 million. In addition to these borrowings, we recently sold to a small group of commercial and savings banks, with our guarantee, \$8.1 million of obligations of Dutch shipping companies which we acquired as a result of a loan to those companies. This latter operation is interesting in that it is the initial sale of obligations guaranteed by the Bank. We believe that this type of financing is subject to considerable expansion.

We now have capital on hand of about \$475 million. We do not expect to borrow large additional amounts until funds are actually needed. We believe there are possibilities of selling both dollar and local currency securities abroad, as well as of making sales in this market from our portfolio. Therefore, it is probable that the Bank will not make frequent offerings of its own bonds in this market.

On the whole we consider that the market record of our bonds has been good. There has been a broad distribution of them among institutional investors. In a number of states legislation was required to legalize investment in the

bonds on the part of commercial and savings banks, insurance companies and trust funds. Beginning early in 1947, the Bank undertook a program to secure the necessary legislation and at present the securities are eligible for all national banks and for other commercial banks in 41 states and the District of Columbia; for savings banks in 22 states and the District of Columbia; for insurance companies in 32 states; and for trust funds in 28 states and the District of Columbia. This most satisfactory result was obtained with the valuable assistance of the investing institutions themselves and we in the Bank are most grateful for their cooperative help. There are still ¹⁶ 13 states requiring legislation to legalize our bonds for insurance companies. We expect to continue our efforts to get the required legislation and ask that you who represent insurance companies in these states give us your assistance.

I would now like to outline briefly our loan operations.

We have loaned a total amount of ⁵⁰⁹ ~~523~~ million -- \$250 million to France, \$207 million to The Netherlands, \$40 million to Denmark and \$12 million to Luxembourg. In addition, we have made a commitment of \$16 million to Chile which is awaiting the ratification of the Chilean Congress. Our first loans were all made to governments or to government corporations. Recently, however, we made our initial loans to private enterprise. The borrowers were four Dutch shipping companies and our loans enabled them to purchase six merchant ships. The loans are secured by ship mortgages and are guaranteed by The Netherlands Government.

The loan to France and the first loan to The Netherlands might be called general purpose loans. They were made to provide for the purchase of materials and equipment ranging from steel, coal and cotton to rolling mills, machine tools and ships. However, I wish to emphasize that the proceeds of these loans were paid out only upon satisfactory certification of expenditures for the

purchase of the specific goods or services authorized in the loan agreement. In effect, we pay against properly authenticated vouchers. Furthermore, we verify through our field representatives in the borrowing countries that the goods are actually used for authorized purposes.

Our lending policy is tending towards loans for specific projects -- for ships to the Dutch companies and for hydroelectric plants and agricultural equipment for Chile, for instance. We now have a number of such loans in various stages of negotiation. By and large these loans will be for moderate amounts.

Our loan procedure usually begins with a preliminary discussion with the potential borrower. If the general situation of the country and the suggested project appear promising, we send a mission from the Bank to study the situation at first hand. Such a study embraces a survey of the economic, financial and related conditions in the country, as well as analysis of the economic and technical aspects of the project itself. For this purpose we may employ outside engineers and other technical experts. When the required information is developed all aspects are carefully considered by the Bank management. It may be that in our opinion certain actions are required on the part of the borrowing country before a loan commitment can be made -- such as financial reform or measures to check inflation. We take every care to see that the policies and actions of the country are such that our loan will be really productive and repayable.

There has been criticism that the Bank is too conservative in its lending policies and that it moves too slowly. We believe, however, that both from the standpoint of the Bank and the borrower loans do more harm than good unless they are made for economically productive purposes and for projects which are carefully worked out. All of this requires time. We do not intend to be hurried into ill-considered loans.

What of the future of the Bank? Up until now the majority of our loans have been made in Europe and we believe that they have definitely contributed

to increased production. However, it became apparent last year that the essential requirements for European recovery were far beyond the capacity of the Bank to finance and that substantial assistance from other sources was necessary. That assistance has now been granted in the form of the European Recovery Program -- a program which, in my judgment, is at once far-sighted, daring and realistic. We are, of course, in close consultation with the Economic Cooperation Administration to determine how Bank loans may best supplement the ERP program. Since ERP funds are being used primarily to furnish urgently needed food, fuel and raw materials, it appears probable that our role will be primarily that of financing capital equipment imports for purposes of specific productive projects. We believe that a number of sound loans of moderate size can be worked out in certain of the countries participating in the recovery program.

During the early summer I spent six weeks visiting a number of countries in Western Europe. Much has been accomplished in physical reconstruction and increase of production. It is a striking fact, however, that although industrial output in most of these countries has approached or exceeded pre-war levels, they are far from having achieved recovery. In the post-war Europe, pre-war standards of production and trade are almost irrelevant. What is needed, I am convinced, is a fundamental and far-reaching readjustment in the entire structure of Europe's economy. There must be new and bold concepts if Europe's fundamental weaknesses are to be corrected and new sources of strength to be provided. I believe one might say that the basic objective of ERP is to enable Europe by its own efforts to achieve just such a readjustment of its trade and productive mechanism.

Although, as I have said, the Bank expects to push forward with additional loans in Europe, we believe that the emphasis in our operations is shifting towards the underdeveloped areas -- Latin America, Asia, Africa and the Middle

East.

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The Bank's approach to the problems of its underdeveloped member countries may be described in general terms as follows. In the first place, we attempt to convince the member government of the importance of working out an overall development program to avoid wasteful and uneconomical projects. Such a program, we point out, should be based on the country's existing natural resources, its location, climate and type of population, and the financial and administrative resources which it has available. We emphasize the importance of starting with modest projects, particularly those which will result in the greatest increase in production and trade in relation to the size of the investment. We are prepared to undertake upon request a broad investigation of the conditions in any member country to provide the basis for general conclusions as to that country's development needs and possibilities and the measures required to overcome the existing obstacles. We have already made such investigations in a number of countries and others are under way. We are prepared to provide impartial counsel in helping the country work out a sound program. We are also willing to recommend qualified independent experts in agriculture, industry, engineering

and finance.

In all of our discussions we emphasize that the major effort in the development of any country must be made by that country itself, both in the handling of its own affairs and in supplying the major part of the capital required. It is our firm conviction that private capital must be looked to for most of the necessary financing and we accordingly urge the development of conditions in the country which will attract foreign private capital, particularly in the form of equity investments. Such investment has the specific advantage of providing not only funds but the necessary technical and managerial skills as well.

We are exploring every opportunity open to us to facilitate the flow of private foreign capital whether by financing part of the cost of a project, the remainder of which is to be financed by private investors, or by granting limited guarantees (for example, a guarantee of the transfer of interest), or by other means. And, finally, we hope to be able to contribute to the international flow of private capital by encouraging the development of principles and practices which are fair both to the foreign investors and to the countries in which investments are made.

It may well be that the real measure of the Bank's effectiveness will be less in the amount of actual loans which it makes than in the success it attains in promoting a realistic and constructive approach to development problems on the part of its members and in fostering greater confidence among those who have money to invest abroad.

In summary I wish to say that we believe that the International Bank represents a sound concept of mobilising international capital to make loans, for productive purposes, which can be repaid. We are attempting to conduct the affairs of the Bank on a business basis. So far we have made a modest but

satisfactory profit. We have succeeded in operating the Bank free of political pressures. We are confident that the securities issued by the Bank or sold with its guarantee represent prime investments for insurance companies and other institutions. And, finally, we feel justified in taking considerable satisfaction in the solid, if modest, accomplishments of the Bank towards assisting in the reconstruction of the war-devastated nations of the world and towards stimulating increased production of goods which the world urgently needs.

THE INTERNATIONAL BANK - ITS FUNCTIONS AND LENDING POLICIES

Address by Robert L. Garner,
Vice President, International
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Convention Annual Meeting,
October 4, 1948

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Almost all the powers of the Governors have been delegated to the 14 Executive Directors of the Bank. The five largest stockholders -- United States, United Kingdom, France, China and India -- each appoint one Executive Director, and the remaining Directors are elected by the other member countries. The voting power of each Director depends primarily upon the size of the capital subscription of the country or countries he represents.

The management is made up of a staff of some 400 people representing 23 nationalities headed by President John J. McCloy, the former Assistant Secretary of War. The staff is not subject to any governmental controls, owes its allegiance only to the Bank, and has been selected on the basis of merit without regard to political influence. It is the responsibility of the management to operate the Bank and to develop recommendations on loans and on other important matters for the approval of the Directors, just as in the ordinary corporation.

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of the specific goods or services authorized in the loan agreement. In effect, we pay against properly authenticated vouchers. Furthermore, we verify through our field representatives in the borrowing countries that the goods are actually used for authorized purposes.

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Our loan procedure usually begins with a preliminary discussion with the potential borrower. If the general situation of the country and the suggested project appear promising, we send a mission from the Bank to study the situation at first hand. Such a study embraces a survey of the economic, financial and related conditions in the country, as well as analysis of the economic and technical aspects of the project itself. For this purpose we may employ outside engineers and other technical experts. When the required information is developed all aspects are carefully considered by the Bank management. It may be that in our opinion certain actions are required on the part of the borrowing country before a loan commitment can be made -- such as financial reform or measures to check inflation. We take every care to see that the policies and actions of the country are such that our loan will be really productive and repayable.

There has been criticism that the Bank is too conservative in its lending policies and that it moves too slowly. We believe, however, that both from the standpoint of the Bank and the borrower loans do more harm than good unless they are made for economically productive purposes and for projects which are carefully worked out. All of this requires time. We do not intend to be hurried into ill-considered loans.

What of the future of the Bank? Up until now the majority of our loans have been made in Europe and we believe that they have definitely contributed to increased production. However, it became apparent last year that the essential requirements for European recovery were far beyond the capacity of the Bank to finance and that substantial assistance from other sources was necessary. That assistance has now been granted in the form of the European Recovery Program -- a program which, in my judgment, is at once far-sighted, daring and realistic. We are, of course, in close consultation with the Economic Cooperation Administration to determine how Bank loans may best supplement the ERP program. Since ERP funds are being used primarily to furnish urgently needed food, fuel and raw materials, it appears probable that our role will be primarily that of financing capital equipment imports for purposes of specific productive projects. We believe that a number of sound loans of moderate size can be worked out in certain of the countries participating in the recovery program.

During the early summer I spent six weeks visiting a number of countries in Western Europe. Much has been accomplished in physical reconstruction and increase of production. It is a striking fact, however, that although industrial output in most of these countries has approached or exceeded pre-war levels, they are far from having achieved recovery. In the post-war Europe, pre-war standards of production and trade are almost irrelevant. What is needed, I am convinced, is a fundamental and far-reaching readjustment in the entire structure of Europe's economy. There must be new and bold concepts if Europe's fundamental weaknesses are to be corrected and new sources of strength to be provided. I believe one might say that the basic objective of ERP is to enable Europe by its own efforts to achieve just such a readjustment of its trade and productive mechanism.

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July 2, 1948
Mr. R. S. Garner
BBC - London

The following information, included in Mr. Garner's recorded broadcast over B.B.C. on 2nd July, has been received from the Public Relations Department:

As we have travelled, we have been impressed with how much has been accomplished in repairing the heavy physical destruction of the war. London looks much improved from my previous visit twenty months ago. Paris in the springtime is again a beautiful and lively city. More important, railways, ports and factories have been repaired or rebuilt. Particularly noteworthy has been the accomplishment in France, Holland and Italy in getting back into operation railway systems which were fearfully damaged. Thousands of totally destroyed bridges have been rebuilt; damaged and destroyed tracks relaid and, despite the shortage and bad condition of much of the rolling stock, a greater volume of traffic is now being handled than before the war. Factories which were masses of rubble are again in production; and in them men and women are busy turning out steel and ships and textiles and the countless other goods needed everywhere. From early morning until darkness one sees farmers cultivating the fields which promise an abundant harvest. Additional aid from America under the Marshall Plan is beginning to flow.

All of this is good; but in honesty and frankness I have to question whether it is enough to ensure sustained and lasting recovery. At every turn we have been impressed with the fact that recovery in each country depends on recovery in all, and that trade between them must flow in increasing volume.

However, despite the gains of the past three years, the trade of every country is hampered by countless restrictions. The money of one country cannot be exchanged for the goods of another, and the movement of goods and of people is barred at every national border. Badly needed British machinery cannot be purchased on the Continent. French steel production is suffering from lack of British and German coal; timber to rebuild British houses is lacking because the Scandinavian countries cannot buy sufficient supplies from the Continent.

What is the solution to this critical problem? I can only say that as I have talked to people in every country which we have visited, I have found a strong conviction that the only solution is in greater unity within Europe. Many say that

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customs unions will help, but that they alone are not sufficient. I have been surprised to find how widespread and strong is the conviction that for the countries of Western Europe, including the United Kingdom, the only real hope of prosperity lies in the separate countries getting together, call it federation or whatever you will.

As an observer from across the Atlantic -- and may I say that I am not speaking as an American but as the Vice President of an international organization -- the amount of support for such a combination is the most significant development which I have observed in Europe. The difficulties are admittedly great. Some see these difficulties and say that they cannot be overcome. But the fact is that we have found many men in England and on the Continent who insist that the need is so urgent that the difficulties must be faced and the objective attained.

*Mr Garner's address
10/53 - only copy in P.R.*

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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April 2, 1948

NOT TO BE RELEASED UNTIL DELIVERY TIME, APPROXIMATELY 7:00 P.M.. E.S.T.,
MONDAY, APRIL 5, 1948

FOR THE PRESS

Press Release No. 89

Address by Robert L. Garner, Vice President of the
International Bank for Reconstruction and Development,
before the Public Affairs Forum, Memphis, Tennessee,
Monday, April 5, 1948.

SOME ECONOMIC ASPECTS OF THE INTERNATIONAL SITUATION

Nearly three years have passed since the end of the war in Europe and they have seen a steady decline in the high hopes which many entertained for peace, security and rapid economic recovery. In recent weeks international difficulties have risen almost to the point of crisis; and the political, economic and military decisions we now face will have momentous consequences for good or ill. It is important that the issues be clearly understood, that we see current problems in their proper proportions, undistorted by sentiment or hysteria.

Inevitably it is a long, hard task to reestablish political stability and carry out economic reconstruction after a great war - as we of the South know so well from our own history. In the present situation the difficulties have been greatly aggravated by unforeseen natural disasters and by failure of the international cooperation on which we had relied. Nevertheless, serious as the situation is - and I have no wish to minimize its gravity - it is not without some favorable elements.

My purpose tonight is to try to present a balanced appraisal of the international economic picture. I stress the economic side not because I consider it more important than the political and military factors in the situation, but because it is closer to my own experience. In fact, of course, politics and military strategy are closely intertwined with economic problems in this task of world reconstruction.

During most of the time since the war ended our attention has inevitably centered on Europe, from which Americans have derived so much of their political and social system and to which they are bound by so many ties of a common heritage.

But the importance of Europe is not merely sentimental. For centuries past its economic and political influence has extended in ever widening circles over the world. Western Europe provided the resources to start modern development in America, Asia and Africa, and became the major center of international trade. Now the preponderance of strength has shifted elsewhere - to the United States and the Soviet Union - but a united and stable Western Europe could still serve as an important factor in the balance of world power. And with restored productivity it could again be a vigorous force for expanding and stabilizing the whole world economy.

It would be inadequate, indeed impossible, merely to restore the prewar economic pattern in Europe. It was clear even before 1939 that the European economy, divided into small and often inefficient economic units, and in many cases using obsolete productive equipment and methods, could not hold its leading position. Even then Europe was living partly on the fat from previous centuries - on income from foreign investments, on colonial produce, on remittances from immigrants to the new world, and the like. This gradual and genteel decline might well have gone on for quite sometime except for the two World Wars. As a direct result of the recent war most of Europe's overseas capital was wiped out, much of her shipping and industrial plant were damaged or destroyed, her productive power was crippled for many months, her control over important colonial possessions was broken, and her commercial ties with the rest of the world were disrupted.

The Western European countries are rather like a group of famous old manufacturing and trading companies, long leaders in their field, whose production and merchandising methods have lagged behind some of their newer competitors, but who nonetheless have held an important position in the trade because of their high reputation and excellent contacts. Suddenly, they are struck by a series of disasters, which damage essential equipment, wipe out their savings and force many of their long-time customers to turn to new suppliers. Their outstanding reputation, their knowledge of the business, their still-valuable plants will not suffice to get back into effective, profitable competition without a reorganization of their capital structure, rationalization of their productive system and provision of enough new money to put them on a sound footing.

That, by and large, is Europe's position. In the necessary reorganization, the United States, through ERP, is playing the role of a realistic investor - who evaluates the assets, approves the reorganization plans, and provides the necessary new money.

In concentrating on Europe's present difficulties, it is easy to undervalue the very substantial assets that the 16 Marshall Plan countries still possess. They have some 270 million highly skilled people, with educational background and technical know-how surpassed only in the United States, if anywhere. They have great traditions of personal freedom and representative government, a rich culture, and a wide experience in the commercial development and political administration of a large part of the world. Their basic productive capacity, in spite of all the damage caused by the war, compares favorably with that of the United States. None of the European countries, perhaps, can by itself occupy the position of world leadership which several of them have held in the past, but collectively they are one of the two wealthiest and most productive areas on earth.

During the past three years the European peoples have demonstrated their will and their ability to work hard, to endure privation, and to make effective use of their material assets for reconstruction. The extent of their accomplishments has not, I think, been fully realized in this country. In spite of the terrible destruction of railroad bridges, marshalling yards, rolling stock and other facilities, for example, the European railways carried more freight in 1947 than in 1938. At the middle of 1947 Marshall Europe was building ships at a rate almost 50% above the prewar level. Their electric power output in 1947 was 31% greater than prewar. Even coal production on the Continent had climbed back from 41% of prewar in 1945 to 88% by last October.

I could give you many more specific examples, but it is enough to say that despite all obstacles industrial production in Great Britain, Belgium and Scandinavia was running at a higher level in 1947 than in 1937, that France and The Netherlands were close to prewar levels. However, in Italy, Austria and Germany production was still substantially below prewar.

There have been mistakes, many of them--unsound fiscal practices, ineffectual action to curb inflation, Communist-inspired strikes, and so on. But on balance the picture is one of courageous, determined and effective action, supported by generous American aid, without which the European efforts would have been unavailing.

In spite of this substantial advance since VE-Day, Europe is still far from fully recovered from the wounds of war. Four factors in particular have retarded its convalescence.

The first was an act of God - the weather. Both the cold and snow of the winter of 1946-47 and the heat and drought of the following summer were of record severity. As a result Western Europe's slim fuel reserves were exhausted, her industrial and power output curtailed, her grain crop for 1947 only 61% of the prewar average, and her need for foreign supplies greatly increased.

The second adverse circumstance has been the widening political gulf between East and West, which slowed the revival of the historic exchange of Western Europe's manufactured goods for food and raw materials from the countries

now in the Soviet bloc. No substitute supplies from the Western Hemisphere could fully replace food from the Danube granary, coal from Poland, Finnish timber products, and other Eastern European goods. Success of ERP may depend in considerable part upon some revival of this trade between East and West in Europe. There are many difficulties involved - the disruption of transport facilities, exchange controls which impose almost a barter system, and the increasing rigidity of trade restrictions at the Iron Curtain. Russia apparently is trying to redirect much of the trade of her satellites away from the West and thus shield them from possible contamination, but there are strong natural and historical ties between the economies of East and West which may prevail over political pressures.

There is danger that Americans, in their natural concern about the "cold war", may act to cut off the exchange of goods between the Western nations and Eastern Europe, including the Soviet Union. Certainly it makes sense to prevent exports which are required for ERP or other necessary purposes, or which would increase the military strength of the Soviet bloc relative to that of the West; but such restrictions should be applied with care, for Western Europe, and the United States too, obtain valuable materials from Russia and her satellites. It is worth remembering that even during the war, contacts between the Allies and Germany were not entirely cut off. Prisoners were exchanged, and the Allies even got a few strategic materials from behind the enemy lines - such as jewel bearings for airplane instruments from isolated Switzerland, and special silk bolting cloth from Northern Italy. The neutral countries in Europe were allowed to import food and raw materials, which doubtless contributed in some ways to those countries' exports to enemy nations - but the reciprocal benefits were well worth the risk. I believe similar criteria must be used now, to weigh the relative advantages and disadvantages for Western Europe of each transaction.

The third problem retarding European recovery has been the slowness of Germany's economic revival. Germany, and the Ruhr in particular, has long been the heart of the European economy. The continued low level of German production has made it impossible for the neighboring countries to obtain adequate supplies of coal, steel, chemicals and machinery, or to sell food, raw materials and manufactured products in the German market. Even apart from the physical destruction caused by the war, German recovery was hampered by the widening split between East and West and the growing confusion, indecision and insecurity of Four Power administration. The recent unification of the western zones and their integration into the ERP increases the hope that this area may once again become a functioning part of Europe's economy. These developments represent a great concession on the part of the European countries, a major victory over their natural fears, for the memory of Nazi aggression is still fresh in their minds.

The fourth blow to the progress of European recovery came with the failure of sterling convertibility last July. The weakness of the British pound and the acute shortage of dollars elsewhere made it impossible for Britain to keep on giving dollars to holders of pounds for more than a few days; the old restrictions had to be reimposed. Thus one of the chief objectives of the British loan of 1946 had to be abandoned, and the dollar shortage in other European countries became even more acute.

The effect of these developments was to set back production and prevent a revival of the normal flow of commerce, upon which Western Europe, more than any other area of comparable size, is dependent. It has proved to be a much simpler task to repair physical damage than to restore the delicate nervous system of trade, within Europe and with overseas areas, which took so many years to develop. One of the chief aims of ERP must be not only to restore Western Europe's capacity to produce, but also to bring about a real revival of its commerce - which requires vigorous action by the European countries themselves to lower customs barriers, remove other trade restrictions and stabilize currency values. None of these steps is impossible, but they all require time, and they are intimately tied up with the restoration of production and internal stability in the various European countries.

The economies of all these nations are closely related. Recovery may proceed at a different pace in different countries, but basically the recovery of each depends on the recovery of all; that is why Western Europe must be reorganized as a whole. Individually they cannot achieve a stable economic balance; collectively their assets are enormous and their prospects hopeful. Indeed the main reason for giving them aid lies not in their weakness but in their inherent strength.

In saying this I do not mean to suggest that success of the ERP is assured. Approval by Congress is only the first step. The hardest part is still to come. Far-reaching measures of economic unification and reform will have to be taken in the participating countries - measures to stabilize their currencies and financial affairs, to stem inflation, to get rid of inefficient business and labor practices that have grown up over many years, to lower trade barriers and eventually to achieve an economic union. Many vital aspects of the Program will be unpopular; some will injure strong and articulate vested interests; and all of them will be misrepresented by its opponents. The first fresh enthusiasm for the Program is sure to wane, even among its strongest supporters, as unforeseen problems arise and optimistic hopes are not always fulfilled. It will not be easy to keep alive, through four years of hard work and austerity, the high purpose and sense of urgency which have brought about such encouraging action during the past few months. It will be hard to keep the administration of the Program keen and vigorous, free of entangling red tape and unimaginative routine. It will often be hard also to prevent the necessary international negotiations from bogging down in petty haggling.

Public support in Europe, and also in the United States, must therefore be focussed upon a single common aim which is emerging with growing clarity - to provide a firm economic base for real European unity. The Recovery Program must be so planned and administered as to serve as a constant incentive and means of persuasion toward this end. That is its great hope and its great promise.

The ideal of European unity has inspired philosophers and statesmen since the Middle Ages. The present crisis, if it provides the pressure needed to make this ideal attainable, may yet be judged a blessing in disguise.

It is in Europe that the basic issues we face today are posed in clearest and most urgent form, but Europe's problems cannot be solved apart from the rest of the world. The ERP countries cannot be self-supporting unless they can sell their products abroad, and buy the food and raw materials they need from Eastern Europe, and from Latin America and Asia, as well as from the United States and Canada. So long as the ability of these areas to produce and to buy is crippled by economic or political disintegration, the foundations of Europe's economy - and the American economy as well - will remain insecure.

But the fact is that Europe and the rest of the world are so interdependent that the European Recovery Program is also a Latin American Recovery Program - and to a lesser extent also a Recovery Program for the Far East, the Middle East, and Africa - for only through recovery in Europe can international economic stability be restored. Revival of European production and buying power will benefit these other areas at once by increasing supplies of the manufactured goods, especially capital equipment, which they need, and by restoring a principal market for their exports.

The benefit in some cases is even more direct: the ERP as presented to Congress envisages very large "off-shore" purchases - that is, purchases from other countries than the United States. Of the \$5.3 billion approved by Congress for the first year of ERP, it is estimated that some \$2 billion will be spent outside the United States, mainly in Latin America. These funds will be used to buy grain from Canada and Argentina, sugar from Cuba, fats and oils from Brazil, oil from Venezuela and the Middle East, nitrates from Chile, and the other products needed for a modern economy. Not only will this relieve the pressure on American supplies, but it will provide the other supplying countries with the dollars which have now become the principal medium of world trade. The dollars spent abroad will all flow back to the United States eventually, but in the course of their wanderings they will irrigate the parched economies of many areas.

The urgent and critical nature of this problem of reconstruction is reflected not only in the ERP, but also in the fact that all but one of the loans so far made by the International Bank have been to European countries. In the long run, however, the other aspect of the Bank's responsibility - that of promoting economic development - is even more significant. The world can achieve and maintain a stable economic balance only if the volume of production and trade is considerably higher in the years to come than it was before the war; and that will be possible only if the productive capacity of less advanced countries - in Latin America, in the Middle and Far East and in the colonial areas of Africa - are much more fully developed.

For the past few months the International Bank has been exploring rather extensively the needs and possibilities of international economic development. The needs are shown in the low living standards, the inefficient methods of producing and distributing goods, the waste of manpower and resources which characterize economic life in most of the world. We know from experience that these conditions could often be much improved by realistic use of capital, modern technical knowledge and management techniques,

and proper training for workers. Possibilities for development exist in almost every country: arable land can be extended through irrigation; crops can be greatly increased by fertilizers and better tools - even by such a simple improvement as substituting steel plows for primitive pointed sticks; the output of consumer goods can be expanded by developing simple industries; more coal and other minerals can be produced by mechanizing some of the mining processes. All these improvements will contribute directly to higher living standards in economically backward countries, and to larger and more stable world trade.

Communist propagandists have built up a vociferous following in many underdeveloped countries by painting a utopian prospect of potential advances under a Communist regime and by assailing the actions and motives of private capital, and foreign capital in particular. But sound economic development cannot be achieved merely by wishing for it, nor by adopting some attractive ideology. It requires hard work, realistic thinking, and the establishment of local conditions which make for economic stability and provide an incentive for productive investment. Sound development in Latin America, Asia or Africa today depends basically on the efforts of the people of those areas - just as the development of the United States was mostly the work of Americans. But imported capital and technical experience can help to make the process easier and faster, as it did for the United States a century ago.

Development of economically backward areas is not a matter of concern to those areas alone; it is no less important to the long run well-being of the United States. This country as the greatest economic power in the world has a vital interest in developing more abundant sources of supply for the materials it needs and wider markets for the goods it has to sell. Moreover, sound and productive investments should pay dividends directly if the world can be established and maintained on a fairly even keel.

I have been struck by the parallel between the position of the United States today and that of Great Britain in the years after the Napoleonic Wars. British industry was then much farther advanced than that of any other country. The Royal Navy's domination of the seas made it possible for production and trade to develop abroad in relative safety. Britain's political interests were best served in general by support of freedom-seeking elements abroad. And perhaps most important of all, her exports of capital started the development of agriculture, railways, mines and factories on the European continent and in America, Asia and Africa, and sparked local initiative to continue the process. British management and technical "know-how" were exported to every corner of the world, and stimulated the growth of local inventiveness and organizing capacity.

The political and social consequences of the extraordinary economic growth were equally important. The conditions under which it took place encouraged individual initiative and permitted increasing personal freedom. The phenomenal growth of production and trade inspired confidence in the soundness of liberal ideas and institutions, and faith in the certainty of social progress. International conflicts were localized and peace settlements were moderate, since it was in the interest of all to get back to business as quickly as possible. There developed an increasingly complex fabric of collaboration among individuals of all nationalities, across national frontiers. A growing community of interest seemed to be in formation, until it was disrupted by the parallel growth of political nationalism.

If peace can be preserved it may not be too much to anticipate a new spurt of development comparable in magnitude to that of the last century, with similarly impressive political and psychological benefits.

The conditions of international development, of course, are not the same today as they were then. It is now a more difficult undertaking in many ways: it involves heavier investments and greater risk of loss; it is hampered by the self-conscious nationalism of most underdeveloped countries and by much wider government intervention. But the sums available for development now are much greater than they were in the early 19th century, and our economic and technical knowledge has advanced enormously.

We who are connected with the International Bank hope to play an important and constructive role in this process. All of you, no doubt, have read and heard a good deal about the Bank, and I shan't go into much detail about its work. But there are one or two aspects of its set-up and operations that seem to me to be of particular interest.

In the first place, the Bank is an international institution, owned by the 46 member governments. Unlike some other international bodies, however, it has the power to take action and not merely to make recommendations. It has funds of its own to lend, and the authority to borrow more. Its staff is international, with members from 23 different countries, but in their work they owe no responsibility to their respective governments - only to the Bank itself. A Board of 14 Executive Directors, each representing one or more of the member governments, sets the policies and passes on major decisions, but the initiative in all operations is taken by the Bank's international staff. Decisions of the Board are made by majority vote, each director having a different number of votes depending on the amount subscribed to the Bank's capital by the nation or nations he represents. So far, however, we have had no dissents; the Bank's staff has received wonderful support from the directors of all nationalities.

Another important aspect of the Bank is its method of financing. It will draw on private investment funds for most of its loanable resources by selling Bank bonds, with all member governments guaranteeing these bonds to minimize the risk to private investors. To be more precise, the system works this way: All the member governments have subscribed to the Bank's capital in varying amounts according to their means. The total of these subscriptions is something over \$8 billion, of which the United States share is a little more than \$3 billion. But

only 20% of each country's subscription had to be paid in, of which one-tenth, or 2% of the total, was payable in gold or dollars and the rest in the respective local currencies. In effect the capital funds immediately available for lending are confined to the 2% paid by all members in gold or dollars plus the 18% paid in dollars by the United States, a total of about \$730 million. The other 80% of the capital subscription provides the guarantee fund for private buyers of Bank bonds.

By this kind of arrangement it is possible to channel private capital into international investment on a broad scale and a sound, well-informed basis. The government guarantee makes our bonds good investments, even for relatively small or cautious investors. And the necessity for our going into the market for the major part of the Bank's funds helps to ensure that we won't stray very far from economic realities.

The third point that I'd like to stress about the Bank is the advantage it derives from its international character. It is not an arm of any government, but is responsible ultimately to all 46. Its loans are made, therefore, on an objective, non-political basis, taking into account not only the profitability of the particular project it is asked to finance but the effect of the loan on the borrowing country's economy as a whole and relevant international factors as well.

At the same time the Bank has greater prestige and authority than any private institution could have; since its interests are identical with those of its members the latter have confidence in its objectivity. The Bank is therefore in a strong position to insist on conditions necessary not only to safeguard its loans, but also to make them effective—conditions which might be resisted as an invasion of sovereignty if they were imposed by another government or by private investors.

The Bank cannot and does not expect to carry the main burden of financing development. The principal contribution must come, of course, from capital resources right within the country concerned; and one of our main aims is to have underdeveloped countries make effective use of local funds and increase the rate of savings for productive uses. Even for international financing the Bank is no substitute for private capital. On the contrary, our purpose is to blaze the trail for private financing. By reducing some of the risks which now inhibit international lending and investment, we hope to start private capital flowing in amounts far greater than we could hope to provide.

I should like, in conclusion, to stress one point which I believe has been implicit in all I have said tonight. The United States occupies a position of unparalleled wealth and power in the world today, and has become for millions of people the only hope of escape from growing misery and ultimate chaos or enslavement. This preeminent position imposes a tremendous responsibility upon Americans, a responsibility which we cannot properly discharge unless we face today's crucial issues calmly and realistically. The isolationist's complacency and the sentimentalism of the world-wide welfare worker are equally immature and dangerous. To get through this troubled period into a new era of peaceful growth

and prosperity will require American leadership of unusual quality, backed by an alert and intelligent public opinion. There are some who believe that democracy is too decadent, too divided, too indecisive to compete effectively with the newer totalitarian religions. I, for one, do not believe it. We need to reaffirm the ideals and purposes that we have sometimes taken too much for granted for it is in its democratic faith, even more than in its physical power, that the strength of America lies.

The International Bank and the World's Need for More Production

Address by

ROBERT L. GARNER

Vice President

International Bank for Reconstruction and Development

before the

THIRTY-FOURTH NATIONAL
FOREIGN TRADE CONVENTION
INTERNATIONAL FINANCE SESSION



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THE INTERNATIONAL BANK AND THE WORLD'S NEED FOR MORE PRODUCTION

Out of his long experience in problems of international finance, Tom McKittrick has given us a most able analysis of the European situation. With this as a background, I shall tell you something of the operations and policies of my institution, the International Bank for Reconstruction and Development, and discuss its relationship to the problem of rebuilding production, trade and financial stability in Europe. I shall also touch on the related subject of development of some of the resources of other parts of the world. I trust that you will bear with me if to some extent, and for purposes of emphasis, I tread on ground covered by the previous speaker.

The Bank is now an operating institution, and I believe that it is proving to be an example of practical international cooperation. After considerable delay it is now performing the work for which it was created, the making of loans for productive purposes. Our Second Annual Governors' Meeting was held in London last month and was attended by the Finance Minister or some comparable official of each of our 45 member nations. This stockholders meeting was handled expeditiously, carried out its scheduled program of formal action, and provided an opportunity for useful informal discussion and exchange of views.

Our Directors, now 13 in number, have been giving conscientious and intelligent attention to the work of the Bank, acting on matters of policy, loans and other major problems quite in accordance with the general role of corporate directors. These men of different nationalities and diverse interests and viewpoints have given splendid backing to the management, and there has never been a formal division in the Board on any question on which it has acted. This is not to infer that there are no differences of opinion. We have frank and sometimes spirited discussions and a thorough consideration of various points of view, but up to now it has always been possible to arrive at decisions which have received the full support of the Board.

Our staff now consists of about 370 men and women of 20 different nationalities, and includes a remarkable diversity of training and experience now working together with business-like efficiency. As you know, John J. McCloy, formerly Assistant Secretary of War, assumed the presidency in March and I became Vice President and the General Manager.

Since May of this year, the Bank has made four loans—\$250 millions to France, \$197 millions to the Netherlands, \$40 millions to Denmark and \$12 millions to Luxembourg, a total of \$497 millions. These loans are for the purpose of supplying equipment and materials to increase production. They are providing urgently needed supplies and should be of substantial aid to the borrowers in building up their output of goods.

We have provided for close supervision in the disbursement of funds, making payments only against carefully checked documents. Furthermore, our representatives in the borrowing countries are closely checking to insure that the goods purchased with our funds are actually used for the productive purposes agreed upon. In this manner we are taking care to avoid some of the unhappy experiences of certain foreign lending in the past whereby proceeds of loans were used for non-productive purposes or otherwise diverted.

One of the interesting elements of our loans are provisions that the Bank be supplied with a flow of pertinent information regarding the economic situation and developments in the borrowing countries, and for continuing consultation between the governments and the Bank on financial and economic matters. I am frank to say that it was not easy to get these principles of supervision and consultation accepted in our earlier negotiations. However, they have been accepted on the sound ground that the Bank is a cooperative international institution in which the borrowing members have both a financial interest and a voice, and that the Bank can therefore properly exercise these functions without infringement on the national sovereignty.

We are now in various stages of discussion with other member countries regarding their economic and financial plans. It is our belief that we can be of practical assistance to many of our members in the study of their economic problems and in helping to develop realistic programs of reconstruction and development. In general, it will be our policy to assist in the diagnoses of problems and the development of broad plans. As to the detailed working out of such plans, such as a revision of the tax structure or the development of a power project, we will be prepared to advise the member government on the selection of private technicians, engineers or other experts.

Without taking time to go further into this aspect of our operations, I can summarize by saying that it is our hope that the Bank can be a constructive influence in promoting sound economic and

financial measures and that it can supply practical aid and advice with respect to both policies and techniques.

On the other hand, it is essential that we recognize the Bank's limitations. There has been much misconception that the Bank has \$8 billions of funds at hand out of which to make loans. The facts are these. The subscribed capital of all the 45 member nations does add up to something in excess of the equivalent of \$8 billions. However, only 20% of this is paid in or ever will be paid in for the purpose of making loans, and of this paid in capital only about \$725 millions is in United States dollars. This is significant because, as I am sure you realize, the present demand is almost entirely for dollars to buy goods primarily in the United States. Furthermore, we can lend our capital only with the consent of the nation whose currency is involved. Today, unfortunately, there are few countries other than the United States which are in a position to give such consent. With the exception of the equivalent of \$2 millions of francs made available out of its subscribed capital by Belgium to cover the purchase of railway equipment by Luxembourg, all of the loans that we have made up to date have been in United States dollars.

In order for the Bank to obtain additional dollars for the purposes of lending we must sell bonds to private investors, and under existing circumstances, predominantly to investors in the United States. As you may recall, we sold our first issue of \$250 millions of bonds in July.

The bonds of the Bank have behind them, of course, all of our assets, including our loans and the unqualified right to call upon all of the member governments for the unpaid 80% capital subscription. We have tried to make it abundantly clear, but it bears repetition, that in the event it is needed to meet the Bank's obligations, the United States Government is committed up to a total of \$2½ billions, irrespective of whether the guarantee is met by any other member nation. Thus, up to this amount, the bonds of the Bank are covered by the full faith and credit of the United States. Without in any way inferring that the obligations of the other members will not be effective, we recognize the fact that at the present time the American investor is looking primarily at the protection provided by the obligation of his own government. Based on this obligation, it is now possible for the investor in America to make his funds available for world reconstruction and development with adequate protection.

We are conscious of the question in many minds as to whether

the Bank will have resources sufficient to do its proper job. In this connection, it was an obvious misconception to believe that any one institution could provide all of the funds necessary to repair the damages of war and develop the untapped resources of the world. Furthermore, we must recognize that the present situation is more acute than could have been foreseen when the Bank was created at Bretton Woods in 1944. Not only was the physical destruction greater than was realized, but the dislocation of production, trade and the very life of hundreds of millions of people has been more profound and widespread.

Recovery would have been difficult enough if, when the fighting ceased, the world could have united in its efforts for recovery. Instead, there is a deep and virulent division, with the Soviet bloc in opposition and hostile to almost every effort which is being made outside its area to rebuild productivity, trade and stability.

And, finally, much of the current disappointment at the pace of recovery, including criticism in some quarters of the limited amount of loans made by the Bank, arises from the fact that many hopes were too high; that it was too much to expect that it would be possible to foresee and provide for quick recovery from the most destructive war in history. We should not lose sight of the fact, which Tom McKittrick has mentioned, that it took 7 or 8 years after World War I for Europe to reach a reasonable restoration of its industrial and agricultural productivity.

In addition to what the previous speaker has said regarding the needs of Europe for food, for materials to run its industries and for the restoration of financial stability, I would like to emphasize a few additional factors affecting recovery.

Manpower is a bottleneck in Europe. There is a shortage of labor to perform the urgent tasks. This shortage could be met in part by more efficient utilization of labor, by reduction of the number of people unnecessarily employed in governmental and other non-productive pursuits, and by a greater mobility of manpower, in part across national borders. Moves toward the solution of this problem must be made by Europe itself; the problem cannot be solved by loans from America.

The requirements for capital goods to rebuild, modernize and expand productive facilities constitute the field in which the Bank is most concerned. Even for this category of requirements our funds cannot be sufficient to do more than fill the most pressing needs. The estimate in the Paris Report on the Marshall Plan is that \$3,100,000,000 of industrial capital goods are required over

the next four years. We have not yet gone far enough in our studies to justify an opinion on the reliability of this estimate, but we are obviously giving close attention to it.

I think we must all realize that the Paris Report is merely an economic prediction. Covering the period of four years, it is necessarily general and lacking in preciseness. The form, the timing, the conditions, the means of implementation, all must be worked out. In Washington and elsewhere a tremendous amount of work is being done on every aspect of this problem and we in the Bank, in close cooperation with many other agencies, are attempting to develop answers to the many questions.

At the present time it is impractical to judge the validity of the estimates which have been submitted. Subject to much more detailed and continuing studies, I find that most of those familiar with the problem are in agreement that Europe requires substantial assistance if she is to increase production and regain stability; that it is essential that the assistance rendered be not too little, but that also it not be so much as to relieve Europe of making its own maximum effort. Aside from the amounts involved, I think it is fair to say that Secretary Marshall's invitation to the European countries to study and state their needs and the consequent Paris Report are something unique in history. No country ever indicated a willingness to consider doing so much for the general good without tangible quid pro quo. It is an example of positive leadership based, I believe, on the realization of America's vital self-interest in world recovery. It is noteworthy to contrast this attitude with that which existed after World War I.

On the other hand, I think Americans should recognize the accomplishments of the Paris Conference in agreeing upon a frank analysis of Europe's economic ills, and of facing up to the steps which Europe must take to correct them. Skeptics may say that these are merely pious expressions of good intent, without evidence of determination to put them into effect. Realists certainly will demand that the undertakings be put in more concrete form and that specific action by the European countries individually and collectively to carry them out must accompany the granting of aid. But with all these qualifications it seems to me that real progress has been made on both sides of the Atlantic towards facing up to the gravity and realities of the situation.

Perhaps in the last analysis the success or failure of the Marshall Plan, the recovery of Europe, the chances of an escape from another war and the security and well-being of America depend

on intangible factors. Will there be the bold and constructive leadership both here and abroad to meet and solve an unprecedented problem? Will the people of America grasp the basic issues, will they have the maturity and firmness to unite behind their leaders, not in an emotional splurge of generosity but in a determination to adopt and follow through a consistent, realistic policy? This will probably not bring them gratitude and thanks but criticism from many quarters and an attack on their motives. This is hard for Americans because they wish to be liked, they want to be good fellows, they welcome a pat on the back. But they cannot afford to be swayed from their determined course by irritation at harsh words directed at them by those who are ignorant or hostile. Leadership cannot always be popular, but it must be effective.

For the people of Europe the test is even more difficult. After a terrible battering in two world wars and a difficult interval between, they are poor, weary and discouraged. Will they respond to America's aid by working harder, by continuing sacrifice, by willingness to pull together? Will their leadership have the vision and courage to take the hard measures necessary to increase production, to move towards financial and political stability, to discard some of their traditional methods and to lay aside some national susceptibilities.

I fully concur in the emphasis which Tom McKittrick has placed on the urgency of restoring financial stability, on restoring confidence of the peoples in their own currency. Without this, no sustained recovery is possible. This is one of the most difficult problems of reconstruction. It must be worked out in connection with provision for a reasonable minimum supply of food and other necessities of life and for increasing productivity. In certain countries it will probably require stabilization credits, to back up firm measures of internal financial reform.

To many people it also seems probable that Western Europe cannot attain a reasonable standard of life, irrespective of the amount of outside assistance, unless there is a reduction of barriers to the flow of trade between the constituent countries and greater integration of their economies. Broken up into the traditional small trading areas, it is not possible to take full advantage of modern technology, and without better technology, without full use of the best know-how in every line, Europe may not be able to reach an acceptable level of productivity nor to produce goods at costs which will be competitive in the markets of

the world. This is recognized in the Paris Report; to translate the thought into accomplishment will be a real test of statesmanship.

Returning now to the specific role of the Bank, I wish to reiterate that the Bank cannot act as a stop gap for emergency aid. We cannot provide food and other sustenance items. It seems quite clear to us that further large scale loans for productive facilities must be integrated with what may be provided under the Marshall Plan. Even so, the Bank cannot supply the funds for all that is required in this category. We can only be a trail blazer, attempting to meet the most urgent and critical needs, in the hope that in increasing degree private capital and industry will step into the picture. I was invited to meet last week with a group of New York business men to discuss how private industry might work with the Bank in the development of direct industrial investment in Europe and elsewhere. As a result of our preliminary talks we agreed to work together in developing methods whereby private investment might participate in some specific reconstruction projects.

We in the Bank realize that we must not permit the urgency of European problems to interfere with our activities regarding the sound development of the resources of our member nations whose economies are less fully developed. Of such areas, perhaps Latin America is especially important to many members of this audience. All of us are aware of the great resources of materials—copper, tin, iron ore, timber, oil—to mention a few—which in increasing degree are essential to the needs of American industry in peace as they proved vital during the war. On the other hand, there is a huge potential market for imported goods in this area.

To an even greater extent than in Europe, the amount of its own funds which the Bank may have available for loans in connection with development in the still economically underdeveloped lands outside of Europe can only be a small fraction of what will be required. Experience shows that the sound progress of underdeveloped areas has been the result of a combination of their own resources and manpower with the capital and know-how from the more mature and economically developed nations. Perhaps the most striking example of this is the United States of America itself. It appears obvious that Latin America and other underdeveloped areas must rely primarily upon private foreign capital and business to assist in their development.

However, the capital and know-how will not be available unless favorable conditions exist. Where, as in the case of a number

of Latin American countries, credit has been impaired through failure to meet obligations, steps must be taken to restore this credit. These countries must put their financial houses in order to create the necessary confidence. They must offer a fair deal to foreign capital and management, at the same time that they insist that the latter refrain from the exploitation which in the past has not been unknown. Perhaps as an international organization the Bank may be of help to these countries in taking the necessary steps.

The experience of American business in Latin America and elsewhere abroad has been neither all black nor all white. Some companies have suffered losses, but many others have profited well. In the undeveloped areas high profits are the accepted reward for successful enterprise.

Unquestionably there has been suspicion and even hostility towards foreign capital and enterprise in some of the Latin American countries. However, there are signs of reversal of this attitude and an increasing desire on their part to encourage American business and capital to come into their countries on a fair and equitable basis. We in the Bank are most desirous of encouraging and assisting in this process.

Certainly there are none in this audience who can ignore the critical state of world affairs. It may be no exaggeration to say that the problems and perils ahead are greater than modern civilization has ever faced. It is easy to yield to fear and discouragement. However, it is in the American tradition to meet dangers with bold and practical action. The stakes are high—perhaps no less than the continuance of private enterprise and the maintenance of our democratic way of life.

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OCTOBER 20, 1947.

FOR THE PRESS

PRESS RELEASE NO. 66

Address by Robert L. Garner, Vice President of the International Bank for Reconstruction and Development, before the Thirty-fourth National Foreign Trade Convention, International Finance Session, at St. Louis, Missouri, 3:00 P.M., Monday, October 20, 1947.

THE INTERNATIONAL BANK AND THE WORLD'S NEED FOR MORE PRODUCTION

Out of his long experience in problems of international finance, Tom McKittrick has given us a most able analysis of the European situation. With this as a background, I shall tell you something of the operations and policies of my institution, the International Bank for Reconstruction and Development, and discuss its relationship to the problem of rebuilding production, trade and financial stability in Europe. I shall also touch on the related subject of development of some of the resources of other parts of the world. I trust that you will bear with me if to some extent, and for purposes of emphasis, I tread on ground covered by the previous speaker.

The Bank is now an operating institution, and I believe that it is proving to be an example of practical international cooperation. After considerable delay it is now performing the work for which it was created, the making of loans for productive purposes. Our Second Annual Governors Meeting was held in London last month and was attended by the Finance Minister or some comparable official of each of our 45 member nations. This stockholders meeting was handled expeditiously, carried out its scheduled program of formal action, and provided an opportunity for useful informal discussion and exchange of views.

Our Directors, now 13 in number, have been giving conscientious and intelligent attention to the work of the Bank, acting on matters of policy, loans and other major problems quite in accordance with the general role of corporate directors. These men of different nationalities and diverse interests and viewpoints have given splendid backing to the management, and there has never been a formal division in the Board on any question on which it has acted. This is not to infer that there are no differences of opinion. We have frank and sometimes spirited discussions and a thorough consideration of various points of view, but up to now it has always been possible to arrive at decisions which have received the full support of the Board.

Our staff now consists of about 370 men and women of 20 different nationalities. They include a remarkable diversity of training and experience who are

working together with businesslike efficiency. As you know, John J. McCloy, formerly Assistant Secretary of War, assumed the presidency in March and I became Vice President and the General Manager.

Since May of this year, the Bank has made four loans - \$250 millions to France, \$197 millions to the Netherlands, \$40 millions to Denmark and \$12 millions to Luxembourg, a total of \$497 millions. These loans are for the purpose of supplying equipment and materials to increase production. They are providing urgently needed supplies and should be of substantial aid to the borrowers in building up their output of goods.

We have provided for close supervision in the disbursement of funds, making payments only against carefully checked documents. Furthermore, our representatives in the borrowing countries are closely checking to insure that the goods purchased with our funds are actually used for the productive purposes agreed upon. In this manner we are taking care to avoid some of the unhappy experiences of certain foreign lending in the past whereby proceeds of loans were used for non-productive purposes or otherwise diverted.

One of the interesting elements of our loans are provisions that the Bank be supplied with a flow of pertinent information regarding the economic situation and developments in the borrowing countries, and for continuing consultation between the governments and the Bank on financial and economic matters. I am frank to say that it was not easy to get these principles of supervision and consultation accepted in our earlier negotiations. However, they have been accepted on the sound ground that the Bank is a cooperative international institution in which the borrowing members have both a financial interest and a voice, and that the Bank can therefore properly exercise these functions without infringement on the national sovereignty.

We are now in various stages of discussion with other member countries regarding their economic and financial plans. It is our belief that we can be of practical assistance to many of our members in the study of their economic problems and in helping to develop realistic programs of reconstruction and development. In general, it will be our policy to assist in the diagnoses of problems and the development of broad plans. As to the detailed working out of such plans, such as a revision of the tax structure or the development of a power project, we will be prepared to advise the member government on the selection of private technicians, engineers or other experts.

Without taking time to go further into this aspect of our operations, I can summarize by saying that it is our hope that the Bank can be a constructive influence in promoting sound economic and financial measures and that it can supply practical aid and advice with respect to both policies and techniques.

On the other hand, it is essential that we recognize the Bank's limitations. There has been much misconception that the Bank has \$8 billions of funds at hand out of which to make loans. The facts are these. The subscribed capital of all the 45 member nations does add up to something in excess of the equivalent of \$8 billions. However, only 20% of this is paid in or ever will be paid in for the purpose of making loans, and of this paid in capital only about \$725 millions is in United States dollars. This is significant because, as I am sure you realize, the present demand is almost entirely for dollars to buy goods primarily in the United States. Furthermore, we can lend our capital only with the consent of the nation whose currency is involved. Today, unfortunately, there are few countries other than the United States which are

in position to give such consent. With the exception of the equivalent of \$2 millions of francs made available out of its subscribed capital by Belgium to cover the purchase of railway equipment by Luxembourg, all of the loans that we have made up to date have been in United States dollars.

In order for the Bank to obtain additional dollars for the purposes of lending we must sell bonds to private investors, and under existing circumstances, predominately to investors in the United States. As you may recall, we sold our first issue of \$250 millions of bonds in July.

The bonds of the Bank have behind them, of course, all of our assets, including our loans and the unqualified right to call upon all of the member governments for the unpaid 80% capital subscription. We have tried to make it abundantly clear, but it bears repetition, that in the event it is needed to meet the Bank's obligations, the United States Government is committed up to a total of \$2-1/2 billions, irrespective of whether the guarantee is met by any other member nation. Thus, up to this amount, the bonds of the Bank are covered by the full faith and credit of the United States. Without in any way inferring that the obligations of the other members will not be effective, we recognize the fact that at the present time the American investor is looking primarily at the protection provided by the obligation of his own government. Based on this obligation, it is now possible for the investor in America to make his funds available for world reconstruction and development with adequate protection.

We are conscious of the question in many minds as to whether the Bank will have resources sufficient to do its proper job. In this connection, it was an obvious misconception to believe that any one institution could provide all of the funds necessary to repair the damages of war and develop the untapped resources of the world. Furthermore, we must recognize that the present situation is more acute than could have been foreseen when the Bank was created at Bretton Woods in 1944. Not only was the physical destruction greater than was realized, but the dislocation of production, trade and the very life of hundreds of millions of people has been more profound and widespread.

Recovery would have been difficult enough if, when the fighting ceased, the world could have united in its efforts for recovery. Instead, there is a deep and virulent division, with the Soviet bloc in opposition and hostile to almost every effort which is being made outside its area to rebuild productivity, trade and stability.

And, finally, much of the current disappointment at the pace of recovery, including criticism in some quarters of the limited amount of loans made by the Bank, arises from the fact that many hopes were too high; that it was too much to expect that it would be possible to foresee and provide for quick recovery from the most destructive war in history. We should not lose sight of the fact, which Tom McKittrick has mentioned, that it took 7 or 8 years after World War I for Europe to reach a reasonable restoration of its industrial and agricultural productivity.

In addition to what the previous speaker has said regarding the needs of Europe for food, for materials to run its industries and for the restoration of financial stability, I would like to emphasize a few additional factors affecting recovery.

Manpower is a bottleneck in Europe. There is a shortage of labor to perform the urgent tasks. This shortage could be met in part by more efficient

utilization of labor, by reduction of the number of people unnecessarily employed in governmental and other non-productive pursuits, and by a greater mobility of manpower, in part across national borders. Moves toward the solution of this problem must be made by Europe itself; the problem cannot be solved by loans from America.

The requirements for capital goods to rebuild, modernize and expand productive facilities constitute the field in which the Bank is most concerned. Even for this category of requirements our funds cannot be sufficient to do more than fill the most pressing needs. The estimate in the Paris Report on the Marshall Plan is that \$3,100,000,000 of industrial capital goods are required over the next four years. We have not yet gone far enough in our studies to justify an opinion on the reliability of this estimate, but we are obviously giving close attention to it.

I think we must all realize that the Paris Report is merely an economic prediction. Covering the period of four years, it is necessarily general and lacking in preciseness. The form, the timing, the conditions, the means of implementation, all must be worked out. In Washington and elsewhere a tremendous amount of work is being done on every aspect of this problem and we in the Bank, in close cooperation with many other agencies, are attempting to develop answers to the many questions.

At the present time it is impractical to judge the validity of the estimates which have been submitted. Subject to much more detailed and continuing studies, I find that most of those familiar with the problem are in agreement that Europe requires substantial assistance if she is to increase production and regain stability; that it is essential that the assistance rendered be not too little, but that also it not be so much as to relieve Europe of making its own maximum effort. Aside from the amounts involved, I think it is fair to say that Secretary Marshall's invitation to the European countries to study and state their needs and the consequent Paris Report are something unique in history. No country ever indicated a willingness to consider doing so much for the general good without tangible quid pro quo. It is an example of positive leadership based, I believe, on the realization of America's vital self-interest in world recovery. It is noteworthy to contrast this attitude with that which existed after World War I.

On the other hand, I think Americans should recognize the accomplishments of the Paris Conference in agreeing upon a frank analysis of Europe's economic ills, and of facing up to the steps which Europe must take to correct them. Skeptics may say that these are merely pious expressions of good intent, without evidence of determination to put them into effect. Realists certainly will demand that the undertakings be put in more concrete form and that specific action by the European countries individually and collectively to carry them out must accompany the granting of aid. But with all these qualifications it seems to me that real progress has been made on both sides of the Atlantic towards facing up to the gravity and realities of the situation.

Perhaps in the last analysis the success or failure of the Marshall Plan, the recovery of Europe, the chances of an escape from another war and the security and well-being of America depend on intangible factors. Will there be the bold and constructive leadership both here and abroad to meet and solve an unprecedented problem? Will the people of America grasp the basic issues, will they have the maturity and firmness to unite behind their leaders, not in an emotional splurge of generosity but in a determination to adopt and follow

through a consistent, realistic policy? This will probably not bring them gratitude and thanks but criticism from many quarters and an attack on their motives. This is hard for Americans because they wish to be liked, they want to be good fellows, they welcome a pat on the back. But they cannot afford to be swayed from their determined course by irritation at harsh words directed at them by those who are ignorant or hostile. Leadership cannot always be popular, but it must be effective.

For the people of Europe the test is even more difficult. After a terrible battering in two world wars and a difficult interval between, they are poor, weary and discouraged. Will they respond to America's aid by working harder, by continuing sacrifice, by willingness to pull together? Will their leadership have the vision and courage to take the hard measures necessary to increase production, to move towards financial and political stability, to discard some of their traditional methods and to lay aside some national susceptibilities.

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To many people it also seems probable that Western Europe cannot attain a reasonable standard of life, irrespective of the amount of outside assistance, unless there is a reduction of barriers to the flow of trade between the constituent countries and greater integration of their economies. Broken up into the traditional small trading areas, it is not possible to take full advantage of modern technology, and without better technology, without full use of the best know-how in every line, Europe may not be able to reach an acceptable level of productivity nor to produce goods at costs which will be competitive in the markets of the world. This is recognized in the Paris Report; to translate the thought into accomplishment will be a real test of statesmanship.

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vital during the war. On the other hand, there is a huge potential market for imported goods in this area.

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However, the capital and know-how will not be available unless favorable conditions exist. Where, as in the case of a number of Latin American countries, credit has been impaired through failure to meet obligations, steps must be taken to restore this credit. These countries must put their financial houses in order to create the necessary confidence. They must offer a fair deal to foreign capital and management, at the same time that they insist that the latter refrain from the exploitation which in the past has not been unknown. Perhaps as an international organization the Bank may be of help to these countries in taking the necessary steps.

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Unquestionably there has been suspicion and even hostility towards foreign capital and enterprise in some of the Latin American countries. However, there are signs of reversal of this attitude and an increasing desire on their part to encourage American business and capital to come into their countries on a fair and equitable basis. We in the Bank are most desirous of encouraging and assisting in this process.

Certainly there are none in this audience who can ignore the critical state of world affairs. It may be no exaggeration to say that the problems and perils ahead are greater than modern civilization has ever faced. It is easy to yield to fear and discouragement. However, it is in the American tradition to meet dangers with bold and practical action. The stakes are high -- perhaps no less than the continuance of private enterprise and the maintenance of our democratic way of life.

RELEASE AFTER 12:30 P.M.
WEDNESDAY, OCTOBER 8, 1947

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

SUMMARY OF ADDRESS BY ROBERT L. GARNER
VICE PRESIDENT, INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT, AT THE ANNUAL CONVENTION OF THE
ASSOCIATION OF NATIONAL ADVERTISERS, AT
ATLANTIC CITY, N. J., OCT. 8, 1947

In an address today before a luncheon meeting of the Association of National Advertisers in Atlantic City, Mr. Robert L. Garner, Vice President of the International Bank for Reconstruction and Development, emphasized that American resources and productive capacity impose a great responsibility on Americans, and at the same time open up a vast opportunity for leadership in world reconstruction and development. He compared America's position now with that of Great Britain in the century after the Napoleonic Wars, when British foreign investments fostered world-wide economic growth at an unprecedented rate.

Mr. Garner strongly contended that America can fill this role only if her people renew their faith in democratic ideals. He emphasized that these ideals involve an appreciation not only of individual dignity and initiative but also of cooperative effort and common sacrifices. Many people abroad, he said, tend to think of the American economy in terms of the exploitive capitalism of an earlier day, and thus fail totally to understand that modern production techniques and industrial organization make possible higher living standards and greater opportunities for the mass of the people than have ever been known elsewhere.

Recognizing that many people abroad resent their dependence on American aid, or believe that it is motivated by fear of depression or

desire to dominate the world, Mr. Garner argued that America cannot afford to be swayed by irritation at criticism and misunderstandings. The real issue, he said, is not whether Americans should be generous to people in distress but whether the interests of the United States and the world require American action to restore sound and productive economy in war-ravaged areas. This question must be answered in the affirmative, he asserted, not only because international stability and prosperity are necessary to the military and political security of the United States, but also because an increase in the volume of production and trade in the rest of the world is indispensable to America's own well-being.

Mr. Garner cautioned against underestimating the progress toward recovery already achieved by Western Europe, but he stressed that the problem of reconstruction is more difficult than was anticipated and that without further assistance the present gains would be lost. The most critical spots, he stated, are France, Italy and Germany.

Mr. Garner described the Marshall Plan as a sound analysis of Europe's problems but pointed out that much remains to be done to fill in this framework and define proper methods and conditions to implement its purposes. He outlined seven basic essentials for sound European recovery: assurance of minimum food requirements; increase in food production; obtaining essential raw materials; provision of equipment needed for repair, modernization and expansion of industrial facilities; financial stabilization measures; integration of production and trade; and more efficient use of manpower. He emphasized especially that recovery is handicapped by the old pattern of small production and trading areas. Modern industrial techniques, he stated, can operate most

effectively when economic boundaries are reduced or eliminated.

In conclusion Mr. Garner stressed the need for leadership both in Europe and the United States. The fullest public understanding and support will be required, he stated, to carry out America's role in the world today. He called on American advertisers to give all possible aid toward enlisting such support.

WHAT IS THIS INTERNATIONAL BANK?

Address by

ROBERT L. GARNER

Vice President

International Bank for Reconstruction and Development

at the

Annual Meeting of the

National Association of Mutual Savings Banks



Boston, Massachusetts

May 6, 1947

The United States has fought two World wars within one generation. Therefore, it seems unnecessary to argue that the people of this country have a vital interest in what happens in other parts of the world. Before this audience I shall take that for granted.

I need not dwell on the effectiveness of this country in both wars. Its productive and organizing power, supporting the fighting qualities of its own troops and those of its allies assured the victory.

Now the same strength, the product of private enterprise and initiative working within a political system of free men, is equally needed to enable the world to get back on its feet.

Built up instead of damaged by war, the productive resources of the United States are incomparably greater than those of any other country. Because of this unique position, the United States is able to take the lead in the financing necessary to restore the production and trade of the world.

But there is a further question frequently posed, is it to America's interest? A full discussion of this subject would lead beyond the limits of my time with you today. However, it is my own deep conviction that the revival of production and the increase of trade throughout the world is essential to the welfare and security of this country. As the richest nation, it has the greatest stake in general prosperity; the most to lose from disintegration and despair.

But can the job be done? Can the world recover, or will the loans by the United States and others be futile?

Certainly the road upward will not be easy. But everywhere there are stout people who are working hard to build better lives for themselves. There has been noteworthy progress in restoring shattered transportation, in increasing the output of coal and other vital materials, in getting damaged factories back to work.

However, there is urgent need for more coal, steel, concrete; for all types of machines and equipment; for fertilizers, seed, breeding stock; for raw materials to supply the factories; for the many things which are available only outside the

national borders. Buying them requires foreign currencies, particularly dollars.

To meet, in part, this need the International Bank was organized. This institution, in which the United States Government is the largest stockholder, represents a cooperative effort of 44 member countries to supply loans for productive purposes—to buy essential goods such as those I have mentioned above.

The Charter of the Bank was written at Bretton Woods and authorized by the Congress of the United States and by the governments of all the other member nations. It provides that all loans made by the Bank shall be for rebuilding and modernizing war damaged economies, supplying essential materials and developing the resources of its member countries. Its operations will be directed solely to stimulating production and commerce.

You in this audience control billions of dollars of the savings of millions of Americans. We in the International Bank look to you savings bankers as one of the principal sources from which we hope to secure funds to carry on the work for which the Bank was organized. I shall tell you briefly something about the Bank, what it is supposed to do, and how the management expects to do it.

The member countries own the stock of the Bank, \$8 billion worth, and each votes this stock through a Governor. Most of these Governors are Finance Ministers of their countries. In the case of the United States, the controlling body is the National Advisory Council consisting of the Secretaries of the Treasury, State and Commerce, the Chairman of the Federal Reserve Board and the President of the Export-Import Bank.

The stock is distributed between the member countries on the basis of their size and economic resources, with the United States holding 40%. The stockholding members are represented in the Bank by 12 Executive Directors. The five largest stockholders each have one Director and the others are elected by groups of countries. These Directors, or their Alternates, give their full time to the business of the Bank. However, their functions are to decide on policy and not to manage the Bank.

The management follows the ordinary corporate form, with a President, a Vice President, and heads of the various departments. As you know, John J. McCloy, former New York lawyer and Assistant Secretary of War, assumed the Presidency on March 17. At the same time I became Vice President and the executive officer to function as general manager of the Bank. Eugene R. Black, formerly Vice President of the Chase National Bank, was nominated by President Truman and confirmed by the Senate as American Executive Director.

We found that the Bank was well organized with a staff of some 200. The key personnel represents an experienced group drawn from various countries. For instance, of the heads of the eight departments into which the organization is divided, four are American, two Canadian, one French and one Dutch. All these men, as well as the remainder of the Staff, have been carefully chosen solely on their record of experience and performance.

It is our firm intention to develop an organization which shall be as capable and efficient as that of any other institution, private or public. So far there has been no pressure, political or otherwise, regarding the selection of our staff, and I am confident that there will be none.

The most prevalent misconception concerning the Bank is that it has \$8 billion on hand available to loan. The facts are these. Of the \$8 billion issued capital, 20% is paid in, or will be in the coming few weeks. This is the entire amount that the stockholders will pay, unless the Bank requires funds to meet its obligations. In other words, for each one dollar (or its equivalent in other currencies) paid in, \$4 or its equivalent, is on call to protect the obligations of the Bank. If needed, the Bank is required to call for these guarantee funds. The United States has paid in \$635 million and is committed to pay up to a maximum of \$2,540,000,000 additional upon call from the Bank to cover liabilities.

Except for 2% paid in gold or U. S. dollars, the capital subscriptions of each member can only be loaned by the Bank with the member's consent. At present, only the United States has given this consent. Therefore, under existing conditions, the Bank will have available to loan only its \$725 million of

capital and such additional funds as it may borrow in the American market. Furthermore, we realize that the investors in the Bank's bonds will for a time give preponderant weight to the dollar guarantee of the American Government.

The question is asked why the United States alone has made available its subscribed capital for loans. The answer is that most of the other countries, two years after the end of the war, are simply not yet able to make loans. However, we consider it of the greatest importance that as rapidly as each country gets over the hump in its economic recovery it will make available its subscribed capital, and that within a reasonable time the currencies of the stronger member countries will be added to the loanable funds of the Bank. Furthermore, we look forward to the time when the bonds of the Bank will find a ready sale among investors in other countries. It is only fair to point out that certain countries, notably Canada and Great Britain, have, since the end of the war and before the Bank has started loan operations, made substantial direct loans abroad and have thus already done much to stimulate production and trade.

A question which inevitably arises in any discussion of the lending of dollars abroad is whether the borrowers will be able to get the dollars to service the loans. This is really the \$64 question which must be faced regarding any loans made from the United States—whether directly by the Government, through the International Bank, or through the private investment market. The United States has become the great creditor nation of the world. Its wealth and economic strength is at present so preponderant that for a time it alone can supply the capital necessary to restore productive facilities in many other nations. Now a creditor nation is like any other business capitalist. It is like your savings banks, the insurance companies, the large private investors. It puts its money to work and expects to have a fair return on its investments.

If capital is loaned or otherwise invested wisely it should enable those who use it to produce goods and services and sell them and make profits out of which they can pay a fair rate to the owners of such capital.

The International Bank intends to lend funds for such productive purposes. For a time it will lend predominately United

States dollars. The borrowers will produce goods and in the end the United States must buy sufficient goods from the rest of the world to enable the other countries to pay a proper return on the capital which they have borrowed in this country.

We believe that, looking to the future, the United States can advantageously buy raw materials and goods produced by others in sufficient amounts to enable borrowers to make the required payments. As more countries recover their ability to sell and to buy and the total of world trade expands, the result will be a greater supply of all currencies, including dollars.

Now let us turn to the more specific operations of the Bank. What sort of policies and practices are we going to follow in operating the institution?

Briefly, the objectives of the Bank are to make productive loans which will aid in the reconstruction of devastated countries and in the development of sound economic projects in underdeveloped areas. Obviously, it would be impossible and inadvisable for any one institution to provide all of the funds which are needed. One of the basic principles of the Bank is to blaze the trail in the postwar world and thus to encourage and justify private capital in following along. This trail blazing is necessary. As the world struggles to recover from the effects of the war there are certain risks arising from general political and economic instability which private capital is not yet in position to accept and the amounts required are too large to be quickly mobilized privately. We hope and believe that the loans which the Bank shall make will be of vital assistance in the process of recovery, and that within a measurable time conditions in many parts of the world will be sufficiently improved to induce private investors to place their funds directly.

The Bank's loans in all cases will be made either to the governments of the member countries, or to enterprises situated within them and guaranteed by the member governments, by the central banks or by other comparable official organizations. The Bank is also authorized to participate in and guarantee such loans made by others. In other words, we have considerable flexibility as to the form in which we supply credit, but whatever the form, we shall insist that the purposes for which our funds are used are constructive, practical and essential to building up the production and trade of the borrowing countries.

Furthermore, we are required to pay due regard to the probability that the loans will be repaid. I can assure you that we are conscious that the funds we supply are loans; they are not gifts.

We hear much in these days concerning political loans. As ordinarily used, I think this means loans which are for some purpose other than economic. The proposed loans to Greece and Turkey are in this category. It has been frankly stated by the United States Government that these are in effect grants for purposes beyond the economic development of these countries. This type of loan is completely different from the economic purpose loans for which the Bank is designed. The Bank has no intention of, in fact it is prohibited from, engaging in any such non-economic loan operations.

Regarding the applications for credit which are presented to us we are attempting to give first consideration to the most urgent needs. Basically we are seeking to eliminate bottlenecks and to help restore and expand productive facilities which will contribute most to the healthy revival of the individual country and of world economy.

We have adopted the principle of successive advances. Stated simply it is, that we shall make a loan for pressing needs to a deserving borrower, and be willing to give consideration to further advances as the borrower demonstrates that it is making good use of the funds and can show need for additional loans.

This sound principle is further made necessary by the present limited loanable funds of the Bank. Certainly, we can only lend what we have.

There are no illusions among us in the Bank that we can save the world. We can help only those who help themselves. The future of every country must depend primarily on its own willingness to work hard and to use to the full its own resources. In all of the applications which we have studied to date the funds which we may be willing to supply will only fill a small portion of the total needs of the borrower. The greater portion of funds and of materials, and practically all of the manpower, must be produced within the countries' own borders. We should help only if we are convinced that the people of the country will make their maximum effort.

It is obvious that full economic recovery and development cannot take place without an increase in the free flow of credit. And credit is based on confidence—on not only the ability, but on the will of people to pay their debts and meet their obligations. Therefore, we feel that it is necessary to take into account, among other factors, the credit record of the potential borrowers who come to us and to appraise fairly the effort they have made and are making to pay their existing debts. We have a great interest in all steps which tend to develop a high regard for the sanctity of contracts.

It is our responsibility in the Bank to see that the proceeds of our loans are used efficiently for the specified purposes for which the funds are borrowed. We shall therefore take the necessary steps to supervise the expenditure of the funds to insure that they go for the agreed purposes.

We fully recognize the importance of having proper engineering and other technical skills employed in the projects for which the Bank makes its loans. Therefore, we shall take care that, both in the preparation of projects and in their execution, there is full utilization of modern "know how." We trust that emphasis on this point will assist in making the dollars we lend fully productive.

It is obvious that our interest in our loans will not cease when the money has been spent. We have no intention of attempting to set the Bank up as an economic czar, but we do intend to throw reasonable protections about our loans and to follow closely all developments which affect the economic and financial progress of our borrowers. We shall set up in the agreements which we make provisions that the borrower shall not give preferences to any of its other creditors to the detriment of our loans. Furthermore, we shall expect to maintain close relations between the Bank and the borrowers, based on confidence and a spirit of mutual cooperation. We believe that the relations between us must be broader and closer than the ordinary relations between a creditor and a debtor. Therefore, we shall expect full exchange of information and opportunity to consult and advise with each other with regard to all matters of mutual interest.

I have attempted to outline above the attitude of the management of the Bank. We believe that it will enable the institution to

meet in a substantial way the needs which it was set up to serve, yet always bearing in mind that we shall be lending primarily private funds which we have an obligation to protect.

We shall attempt to make sound loans which will pay out. It is our hope and belief that we shall not need to call on the guarantees of the member governments—but they are there as an insurance policy which in any event should protect from loss the investors in the bonds of the Bank.

In justification of this statement I wish to refer to a study which has just been completed by the Bank covering the record of United States investors' experience with foreign dollar bonds following 1920. Such loans include bonds of non-member countries like Germany, as well as municipal or corporate bonds which were not guaranteed by their governments and thus would not have been within the eligibility requirements of the Bank. We have thrown them all in, in order to take the worst possible picture. For good measure we have added the Russian and Mexican bonds which were in default prior to 1920.

It is not necessary to emphasize the unfortunate character of much of this lending—the lack of careful analysis of many loan applications; the diversion of some of the funds to non-productive use; the high rates of interest which increased the burden on the borrowers. Assuming all of these conditions and supposing all of the loans had been guaranteed by the International Bank as it is now constituted, how would the investors in these foreign bonds have fared?

On all outstanding bonds in default the Bank could have paid the holders at the rate of 6% interest and 4% annual amortization. Up to the beginning of World War II only about 15% of the total capital funds of the Bank or slightly over one-third of the United States subscription alone would have been required to carry this service. If the Bank would have chosen then to call the remaining \$1.6 billions of unamortized defaulted bonds, only about 36% of the total capital funds of the Bank would have been required, or 90% of the United States subscription. If, on the other hand, the Bank would have continued to service all defaults, including the new defaults of enemy countries, at 6% interest and 4% amortization through the five years covering the war period, the investors would still have been protected. The Bank could have carried

the service on all of these defaulted loans and paid off the balance outstanding in 1945 by using only 40% of the total subscribed capital. The subscription of the United States alone would have been sufficient to have done the job.

I repeat, we shall attempt to make sound loans which will pay out, and in addition, the bonds of the Bank will be protected by an insurance policy of tremendous strength.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

PRESS RELEASE NO. 40

May 1, 1947

ADDRESS BY MR. ROBERT L. GARNER, VICE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, AT THE ANNUAL MEETING OF THE NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS, HOTEL STATLER, BOSTON, MASSACHUSETTS, 10:00 A. M., MAY 6, 1947

"WHAT IS THIS INTERNATIONAL BANK"

The United States has fought two World wars within one generation. Therefore, it seems unnecessary to argue that the people of this country have a vital interest in what happens in other parts of the world. Before this audience I shall take that for granted.

I need not dwell on the effectiveness of this country in both wars. Its productive and organizing power, supporting the fighting qualities of its own troops and those of its allies assured the victory.

Now the same strength, the product of private enterprise and initiative working within a political system of free men, is equally needed to enable the world to get back on its feet.

Built up instead of damaged by war, the productive resources of the United States are incomparably greater than those of any other country. Because of this unique position, the United States is able to take the lead in the financing necessary to restore the production and trade of the world.

But there is a further question frequently posed, is it to America's interest? A full discussion of this subject would lead beyond the limits of my time with you today. However, it is my own deep conviction that the revival of production and the increase of trade throughout the world is essential to the welfare and security of this country. As the richest nation, it has the greatest stake in general prosperity; the most to lose from disintegration and despair.

But can the job be done? Can the World recover, or will the loans by the United States and others be futile?

Certainly the road upward will not be easy. But everywhere there are stout people who are working hard to build better lives for themselves. There has been noteworthy progress in restoring shattered transportation, in increasing the output of coal and other vital materials; in getting damaged factories back to work.

However, there is urgent need for more coal, steel, concrete; for all types of machines and equipment; for fertilizers, seed, breeding stock; for raw materials to supply the factories; for the many things which are available only outside the national borders. Buying them requires foreign currencies, particularly dollars.

To meet, in part, this need the International Bank was organized. This institution, in which the United States Government is the largest stockholder, represents a cooperative effort of 44 member countries to supply loans for productive purposes -- to buy essential goods such as those I have mentioned above.

The Charter of the Bank was written at Bretton Woods and authorized by the Congress of the United States and by the governments of all the other member nations. It provides that all loans made by the Bank shall be for rebuilding and modernizing war damaged economies, supplying essential materials and developing the resources of its member countries. Its operations will be directed solely to stimulating production and commerce.

You in this audience control billions of dollars of the savings of millions of Americans. We in the International Bank look to you savings bankers as one of the principal sources from which we hope to secure funds to carry on the work for which the Bank was organized. I shall tell you briefly something about the Bank, what it is supposed to do, and how the management expects to do it.

The member countries own the stock of the Bank, \$8 billion worth, and each votes this stock through a Governor. Most of these Governors are Finance Ministers of their countries. In the case of the United States, the controlling body is the National Advisory Council consisting of the Secretaries of the Treasury, State and Commerce, the Chairman of the Federal Reserve Board and the President of the Export-Import Bank.

The stock is distributed between the member countries on the basis of their size and economic resources, with the United States holding 40%. The stockholding members are represented in the Bank by 12 Executive Directors. The 5 largest stockholders each have one Director and the others are elected by groups of countries. These Directors, or their Alternates, give their full time to the business of the Bank. However, their functions are to decide on policy and not to manage the Bank.

The management follows the ordinary corporate form, with a President, a Vice President, and heads of the various departments. As you know, John J. McCloy, former New York lawyer and Assistant Secretary of War, assumed the Presidency on March 17. At the same time I became Vice President and the executive officer to function as general manager of the Bank. Eugene R. Black, formerly Vice President of the Chase National Bank, was nominated by President Truman and confirmed by the Senate as American Executive Director.

We found that the Bank was well organized with a staff of some 200. The key personnel represents an experienced group drawn from various countries. For instance, of the heads of the eight departments into which the organization is divided, four are American, two Canadian, one French and one Dutch. All these men, as well as the remainder of the Staff, have been carefully chosen solely on their record of experience and performance.

It is our firm intention to develop an organization which shall be as capable and efficient as that of any other institution, private or public. So far there has been no pressure, political or otherwise, regarding the selection of our staff, and I am confident that there will be none.

The most prevalent misconception concerning the Bank is that it has \$8 billion on hand available to loan. The facts are these. Of the \$8 billion issued capital, 20% is paid in, or will be in the coming few weeks. This is the entire amount that the stockholders will pay, unless the Bank requires funds to meet its obligations. In other words, for each one dollar (or its equivalent in other currencies) paid in, \$4 or its equivalent, is on call to protect the obligations of the Bank. If needed, the Bank is required to call for these guarantee funds. The United States has paid in \$635 million and is committed to pay up to a maximum of \$2,540,000,000 additional upon call from the Bank to cover liabilities.

Except for 2% paid in gold or U. S. dollars, the capital subscriptions of each member can only be loaned by the Bank with the member's consent. At present, only the United States has given this consent. Therefore, under existing conditions, the Bank will have available to loan only its \$725 million of capital and such additional funds as it may borrow in the American market. Furthermore, we realize that the investors in the Bank's bonds will for a time give preponderant weight to the dollar guarantee of the American Government.

The question is asked why the United States alone has made available its subscribed capital for loans. The answer is that most of the other countries, two years after the end of the war, are simply not yet able to make loans. However, we consider it of the greatest importance that as rapidly as each country gets over the hump in its economic recovery it will make available its subscribed capital, and that within a reasonable time the currencies of the stronger member countries will be added to the loanable funds of the Bank. Furthermore, we look forward to the time when the bonds of the Bank will find a ready sale among investors in other countries. It is only fair to point out that certain countries, notably Canada and Great Britain, have, since the end of the war and before the Bank has started loan operations, made substantial direct loans abroad and have thus already done much to stimulate production and trade.

A question which inevitably arises in any discussion of the lending of dollars abroad is whether the borrowers will be able to get the dollars to service the loans. This is really the \$64 question which must be faced regarding any loans made from the United States -- whether directly by the Government, through the International Bank, or through the private investment market. The United States has become the great creditor nation of the world. Its wealth and economic strength is at present so preponderant that for a time it alone can supply the capital necessary to restore productive facilities in many other nations. Now a creditor nation is like any other business capitalist. It is like your savings banks, the insurance companies, the large private investors. It puts its money to work and expects to have a fair return on its investments.

If capital is loaned or otherwise invested wisely it should enable those who use it to produce goods and services and sell them and make profits out of which they can pay a fair rate to the owners of such capital.

The International Bank intends to lend funds for such productive purposes. For a time it will lend predominately United States dollars. The borrowers will produce goods and in the end the United States must buy sufficient goods from the rest of the world to enable the other countries to pay a proper return on the capital which they have borrowed in this country.

We believe that, looking to the future, the United States can advantageously buy raw materials and goods produced by others in sufficient amounts to enable borrowers to make the required payments. As more countries recover their ability to sell and to buy and the total of world trade expands, the result will be a greater supply of all currencies, including dollars.

Now let us turn to the more specific operations of the Bank. What sort of policies and practices are we going to follow in operating the institution?

Briefly, the objectives of the Bank are to make productive loans which will aid in the reconstruction of devastated countries and in the development of sound economic projects in underdeveloped areas. Obviously, it would be impossible and inadvisable for any one institution to provide all of the funds which are needed. One of the basic principles of the Bank is to blaze the trail in the postwar world and thus to encourage and justify private capital in following along. This trail blazing is necessary. As the world struggles to recover from the effects of the war there are certain risks arising from general political and economic instability which private capital is not yet in position to accept and the amounts required are too large to be quickly mobilized privately. We hope and believe that the loans which the Bank shall make will be of vital assistance in the process of recovery, and that within a measurable time conditions in many parts of the world will be sufficiently improved to induce private investors to place their funds directly.

The Bank's loans in all cases will be made either to the governments of the member countries, or to enterprises situated within them and guaranteed by the member governments, by the central banks or by other comparable official organizations. The Bank is also authorized to participate in and guarantee such loans made by others. In other words, we have considerable flexibility as to the form in which we supply credit, but whatever the form, we shall insist that the purposes for which our funds are used are constructive, practical and essential to building up the production and trade of the borrowing countries.

Furthermore, we are required to pay due regard to the probability that the loans will be repaid. I can assure you that we are conscious that the funds we supply are loans; they are not gifts.

We hear much in these days concerning political loans. As ordinarily used, I think that means loans which are for some purpose other than economic. The proposed loans to Greece and Turkey are in this category. It has been frankly stated by the United States Government that these are in effect grants for purposes beyond the economic development of these countries. This type of loan is completely different from the economic purpose loans for which the Bank is designed. The Bank has no intention of, in fact it is prohibited from, engaging in any such non-economic loan operations.

Regarding the applications for credit which are presented to us we are attempting to give first consideration to the most urgent needs. Basically we are seeking to eliminate bottlenecks and to help restore and expand productive facilities which will contribute most to the healthy revival of the individual country and of world economy.

We have adopted the principle of successive advances. Stated simply it is, that we shall make a loan for pressing needs to a deserving borrower, and be willing to give consideration to further advances as the borrower demonstrates that it is making good use of the funds and can show need for additional loans.

This sound principle is further made necessary by the present limited loanable funds of the Bank. Certainly, we can only lend what we have.

There are no illusions among us in the Bank that we can save the world. We can only help only those who help themselves. The future of every country must depend primarily on its own willingness to work hard and to use to the full its own resources. In all of the applications which we have studied up to date the funds which we may be willing to supply will only fill a small portion of the total needs of the borrower. The greater portion of funds and of materials, and practically all of the manpower, must be produced within the countries' own borders. We should help only if we are convinced that the people of the country will make their maximum effort.

It is obvious that full economic recovery and development cannot take place without an increase in the free flow of credit. And credit is based on confidence -- on not only the ability, but on the will of people to pay their debts and meet their obligations. Therefore, we feel that it is necessary to take into account, among other factors, the credit record of the potential borrowers who come to us and to appraise fairly the effort they have made and are making to pay their existing debts. We have a great interest in all steps which tend to develop a high regard for the sanctity of contracts.

It is our responsibility in the Bank to see that the proceeds of our loans are used efficiently for the specified purposes for which the funds are borrowed. We shall therefore take the necessary steps to supervise the expenditure of the funds to insure that they go for the agreed purposes.

We fully recognized the importance of having proper engineering and other technical skills employed in the projects for which the Bank makes its loans. Therefore, we shall take care that, both in the preparation of projects and in their execution, there is full utilization of modern "know how". We trust that emphasis on this point will assist in making the dollars we lend fully productive.

It is obvious that our interest in our loans will not cease when the money has been spent. We have no intention of attempting to set the Bank up as an economic czar, but we do intend to throw reasonable protection about our loans and to follow closely all developments which affect the economic and financial progress of our borrowers. We shall set up in the agreements which we make provisions that the borrower shall not give preferences to any of its other creditors to the detriment of our loans. Furthermore, we shall expect to maintain close relations between the Bank and the borrowers, based on confidence and a spirit of mutual cooperation. We believe that the relations between us must be broader and closer than the ordinary relations between a creditor and a debtor. Therefore, we shall expect full exchange of information and opportunity to consult and advise with each other with regard to all matters of mutual interest.

I have attempted to outline above the attitude of the management of the Bank. We believe that it will enable the institution to meet in a substantial way the needs which it was set up to serve, yet always bearing in mind that we shall be lending primarily private funds which we have an obligation to protect.

We shall attempt to make sound loans which will pay out. It is our hope and belief that we shall not need to call on the guarantees of the member governments -- but they are there as an insurance policy which in any event should protect from loss the investors in the bonds of the Bank.

In justification of this statement I wish to refer to a study which has just been completed by the Bank covering the record of United States investors' experience with foreign dollar bonds following 1920. Such loans include bonds of non-member countries like Germany, as well as municipal or corporate bonds which were not guaranteed by their governments and thus would not have been within the eligibility requirements of the Bank. We have thrown them all in, in order to take the worst possible picture. For good measure we have added the Russian and Mexican bonds which were in default prior to 1920.

It is not necessary to emphasize the unfortunate character of much of this lending -- the lack of careful analysis of many loan applications; the diversion of some of the funds to non-productive use; the high rates of interest which increased the burden on the borrowers. Assuming all of these conditions and supposing all of the loans had been guaranteed by the International Bank as it is now constituted, how would the investors in these foreign bonds have fared?

On all outstanding bonds in default the Bank could have paid the holders at the rate of 6% interest and 4% annual amortization. Up to the beginning of World War II only about 15% of the total capital funds of the Bank or slightly over one-third of the United States subscription alone would have been required to carry this service. If the Bank would have chosen then to call the remaining \$1.6 billions of unamortized defaulted bonds, only about 36% of the total capital funds of the Bank would have been required, or 90% of the United States subscription. If, on the other hand, the Bank would have continued to service all defaults, including the new defaults of enemy countries, at 6% interest and 4% amortization through the five years covering the war period, the investors would still have been protected. The Bank could have carried the service on all of these defaulted loans and paid off the balance outstanding in 1945 by using only 40% of the total subscribed capital. The subscription of the United States alone would have been sufficient to have done the job.

I repeat, we shall attempt to make sound loans which will pay out, and in addition, the bonds of the Bank will be protected by an insurance policy of tremendous strength.

*Journal
and speech
ANA? Oct 8, 1947*

This morning you heard some very pertinent thoughts about the American economic system and about the European situation. I am going to try to emphasize and fill in some of the things that were touched on this morning and try to show a little more clearly their inter-relationship.

The complexity of the European situation is great; however, I think it is interesting that many people who have been in the middle of this picture over the past year have a rather remarkable degree of unanimity as to the fundamental situation, what the troubles are, and what should be done.

On the other hand, as Lew Brown emphasized this morning, the American people must make a great decision and it is not sufficient merely to have a few experts understand what is involved. I disagree with him that the American people are indifferent about this problem. I have been around the country, and the other members of our banking staff have travelled extensively. I think there are few people in America of any reasonable level of intelligence who are not deeply concerned about what is going to happen to the rest of the world.

There is no lack of interest; there is a lack of knowledge, a lack of understanding, a lack of realization of what we can do.

Let's go back a little bit. This country has been one of perhaps a score of nations in recorded history which has exercised a decisive influence. First, when the United States was founded, it set an example of democratic government and individual rights which became a goal for much of the civilized world.

Second, it gave a demonstration of the vitality and the ability of individual initiative which demonstrated what could be done in raising the economic level at which people might live.

Third, in the First World War, it stepped in and brought victory, defeating a German attempt to conquer the world. But at the end of that war the people decided that they had enough, and said, "To hell with what happens abroad."

In the Second World War, again this country was decisive; without it there would not have been the victory.

Apparently this time the American people realize that they cannot come back home and forget about the rest of the world. Leadership has been laid in their laps.

The protective oceans have been shrunk by new weapons, and most of the other strong nations that previously have led civilization are now weakened and in distress.

The Western World is now facing the avowed hostility of another police state, just as ruthless, and perhaps more so, than Germany ever was.

There is some argument that this country can best protect itself by drawing within its borders and permitting the rest of the world to be taken over by communism. That seems to be what the Russians want the United States to do. Furthermore, it did not work the last time. It did not prevent another World War into which this country was dragged.

This morning you saw the statistical evidence of American productivity, something which is so far ahead of what any other peoples in the world have ever achieved that there is no real comparison.

That capacity, that power of America, is desperately needed by the rest of the free people of the world. It is perhaps their only hope.

Some centuries ago, after the Napoleonic Wars, Great Britain stood relatively in the same situation. She took the leadership, and there followed

a long period of development from which both Great Britain and the rest of the world greatly profited. That is an example of the leadership of freedom-loving people—pointing the world definitely toward economic, social and political progress.

The United States is now the only country strong enough to give leadership for the support of the basic concepts of Western civilization. It seems inevitable that, if America is to exercise this leadership, it must be strong militarily and economically, and financially. It also must be strong morally, for the moral fibre of a people in a position of great responsibility is crucial. It must have character and courage and determination.

In estimating the situation we must realize a factor in communism that cannot be discounted. It is a sort of religion, a fanaticism that has created in many people a willingness to sacrifice everything for the cause. In the past religious faiths and patriotism have provided the motives for such devotion. If America is to meet successfully the dangers that now face it, it must revive some fundamental faiths on which it was founded and grew, rekindle some of the spirit which brought our forefathers across the seas and enabled them to build a great nation.

It is going to take faith as well as economic and military power to win this present struggle. The program of education which you are discussing today should be of great importance in strengthening Americans' belief in America. I believe that we must admit that America, the land of great salesmen, has not really done a good job in selling its system to many of its own people of this generation, much less to the other people of the world. I was encouraged by what I heard this morning of the program which is being launched. One of the important factors in the world situation is the lack of understanding, the lack of knowledge between countries. And it is not confined to the fact that the

Russians do not understand us and we do not understand them. The English do not understand us and we do not understand them; nor the French. There is a general misunderstanding of America and the American way of life.

Considering the present situation, it is only fair to realize the difficulties which the people of Europe have faced. They have taken a terrible beating, physically, morally. They are hungry. They are tired. Because this country is so much stronger, its people should try to have understanding and a reasonable amount of tolerance for their state of mind. Many things are said on the other side of the water which irritate Americans. But I do believe that it is up to the people of this country to rise above irritations and look at this thing coolly, as a doctor makes a diagnosis, not as to whether or not he likes the patient, but on the basis of what is required to cure him.

In the last analysis, the problem of Europe is not merely a question of whether people are starving and whether Americans will generously save them. It is probably true that, if there is a failure to send food to Europe this winter, many people may starve, but in my opinion that is not the basic question. It is whether America can, by sensible cooperation and aid, enable the productive forces of Europe to get back on their feet?

As Lew Brown said this morning, it is not enough to be generous; what is needed is for America to be effective.

I wish to point out one general misconception, that all of Europe is in a complete mess, that they have done very little since the war to help themselves, and that they are idly waiting for the United States to take care of them. On the contrary, there has been much hard work and substantial accomplishment.

For example, in France, Holland, Italy and some of the other countries the transportation system was knocked completely to pieces. That transportation system has been, to a considerable extent, restored. In many industries production has been increased to pre-war levels, or even beyond.

The picture is not all bad. There are many hard working people in Europe who are doing their best. On the other hand, the progress has been very uneven.

Law Brown gave an excellent survey of the situation in Germany and in England. It seems true that England cannot adequately recover unless she can mine more coal. France and Italy have done much. Many people in those countries are working hard, but they are in a critical situation. Unless help is given to them, they may not be able to pull through this winter without such hardship as to threaten their economic and political systems.

In closing I wish to make a few comments on what has become known as the Marshall Plan. It came out of the challenge given to Europe by this Government to come up and say what they need and what they will do if America will help them to get on their feet. In the report of the Paris Conference they put their fingers on the essentials necessary for Europe's recovery. However, this report is a long-range projection. It must be implemented. Methods must be worked out, both from the point of view of how the United States should administer it, and how the Europeans can achieve the things which in the report they say they must do.

And I am convinced that it is going to take a lot of hard, tough thinking and action on the part of the United States to bring about the desired results. A firm attitude will not be popular in all quarters. It may be too much to expect gratitude and pats on the back for assistance given. It is not a question of whether the United States is going to be loved,

but whether it is going to be effective in helping to pull the world out of a hell of a mess. It is extremely important that the people who make opinion in America, of whom you are an important part, should help to define to the American people the facts, so that they may arrive at a sound decision.

I will not attempt to analyze the Marshall Plan nor comment on any opinions which the International Bank has concerning it. We are studying it and later will attempt to reach certain conclusions.

As to the Bank, I have time merely to say that it is an instrument which was set up by forty-five nations to make productive loans, not to grant relief. We will only make loans if we are convinced that our money will increase production of essential goods and services in an efficient way, and that we believe that such loans will be repaid.

The Bank is operating as an instrumentality, not of the United States Government, but of forty-five nations, and we are attempting to do a businesslike, constructive job.

It has been a great pleasure to be here, to sit in on your program. I believe that your proposed educational program can be one of the most important factors in the future of America. If you can succeed here, the facts which are spread throughout this country may reach beyond its borders so that many other peoples will realize that this American system has worked and can be made to continue to work in a way that makes it the hope of the world.
(Applause)

CHAIRMAN BROWN: Thank you, Mr. Garner, for a most splendid address, which was both inspirational and instructive.

The meeting will adjourn.

(The meeting adjourned at three o'clock.)

ADDRESS BY ROBERT L. GARNER, VICE PRESIDENT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AT UNITED NATIONS LUNCHEON
TARRYTOWN, NEW YORK - SEPTEMBER 15, 1947

This occasion is significant proof of the deep, if somewhat fearful, concern of the people of this community and of the United States in the struggle toward a peaceful and a prosperous world.

During the lifetime of many of us two world wars have been fought at terrific cost. In baseball, three strikes are out. A third world war with the new weapons now available might well be the third strike on civilization.

Out of the hope of escaping such a catastrophe was born the United Nations. All of us would admit the difficulties with which it has struggled. Many of those who hailed its launching with high hopes have been sorely disappointed, as there have appeared among its members differences which some observers fear to be irreconcilable. However, it is well for Americans to remember their own early history. For many years during and after the Revolution, dissension among the former colonies undermined their economic stability and jeopardized their struggle for independence. It was only through the devotion, faith and courage of a few leaders that the diverse and jealous States gradually were forged into a great nation.

Despite the day to day differences and conflicts, we should realize that never in history has there been such a definitely organized attempt to work out problems between nations on a basis of mutual agreement and help. Through the United Nations and its various agencies, and through other cooperating international organizations, thousands of men and women are spending long hours and giving earnest effort towards solving the problems which threaten to overwhelm us.

I welcome this opportunity to speak briefly today of one such organization, the International Bank for Reconstruction and Development. At Bretton Woods in 1944 the Bank, together with the International Monetary Fund was conceived. Behind them was the concept that an essential for peace -- perhaps the basic essential -- would be the restoration of a productive, developing world trade.

These two institutions -- the Bank and the Fund -- while not actually organs of the United Nations, are founded on the same basic conviction that there must be a mutual working out of international problems. Their membership is not identical with that of the United Nations, the most significant difference being that Russia is not a member of the Bank or the Fund.

Because the Bank and Fund are organized under their own charters and provided with their own funds, it has been recognized that their operations are not subject to the control of the United Nations. However, there are many problems on which we expect to work in the closest cooperation, each pulling its own oar but with a real determination to bend our backs in the common effort.

Therefore, the Bank as well as the Fund, has recently negotiated an agreement with the Economic and Social Council of the United Nations, in order to clarify and make more useful the manner in which we work together.

Now what is this Bank for Reconstruction and Development, perhaps more generally known as the World Bank?

It is in reality a financing company owned by 45 nations who have subscribed to its capital, each in proportion to its own size and resources. Into this pool the United States has put somewhat more than 1/3 of the total of \$8 billions. Only 20% of this amount has been paid in for the purpose of making loans. The remaining 80% stands as a guarantee for the bonds which the Bank will sell to private investors. Thus, the Bank represents an instrument

owned and backed by the member governments, through which the funds of private investors, with appropriate safeguards for their protection, can be channeled into productive loans to aid in the reconstruction of its war-devastated member countries, and into the development of sound economic projects in the under-developed areas.

A ~~The Bank has a Board of Governors, each representing one of its 45 member nations. It has a Board of 13 Executive Directors and its operating staff is~~ made up of about 350 men and women from all parts of the world. This truly international organization is a going concern which we believe is making real progress towards the accomplishment of its purposes.

In view of the pressing problems of European reconstruction, the Bank has within the past few months loaned a total of almost \$500 millions to France, Holland, Denmark and Luxembourg.

In July it sold \$250 millions of its own bonds to American investors.

Last Friday the Second Annual Report of the Bank was submitted by the President to the Board of Governors assembled in London. In this report an attempt is made to set out an analysis of the problems which beset the European nations in their fight for recovery, and of the fundamental requirements for economic development elsewhere.

In our opinion, there are three major bottlenecks impeding Europe's recovery. They are shortages of food, fuel and manpower. These bottlenecks must be broken to achieve the political and financial stability which is essential. How to break these bottlenecks is a question engaging the most earnest consideration of the leaders of a large number of European countries and of the United States.

Let us not overlook the fact that much progress has already been made toward reconstruction, due both to the efforts of Europe itself and to foreign grants and credits. Vast areas of arable land have been cleared of mines and wreckage

and restored to the plow. Remarkable progress has been made in getting back into operation the heavily damaged railways. Production in many lines, for example, textiles, rubber goods, cement, has shown great progress. Millions of individuals are toiling under harsh conditions to repair and build up normal life and activities. In certain countries good leadership and hard work have achieved noteworthy results.

However, this record of reconstruction is not uniform. There are examples of countries torn by political dissension, unsound financial management, and weak or impractical leadership, tempting the people to seek salvation through some means easier than the hard work necessary to produce more of the goods which they desperately need.

Outstaring them and us in the face today are the hard facts that recovery from the devastation of the war can only come by more work, not less, by longer hours, not shorter, by sacrifice, by pulling together. The hopes for an easy way out are dying hard. But there seems to be emerging a realization on both sides of the Atlantic of the tremendous efforts required; not only of the urgency of the need for assistance from America, but also that this aid can be useful, and will be forthcoming, only as those who need the help do their utmost to help themselves.

Obviously the Bank alone cannot provide the whole solution. It cannot grant relief and its resources are limited. Its loans must be directed to supplying the tools and materials which Europe urgently needs to build up its production. Within the limits of its purposes and available funds the Bank should, however, be able to play an important part in any overall and constructive economic plan.

Turning from the European scene, the Bank also has an important task of assisting in the economic progress of the less well developed areas of the world. In the great spaces of Latin America, Asia, Africa and the Middle East lie the economic frontiers. Great resources of raw materials, of land and of

manpower are there available. The development of these resources is as important for the progress of the more mature nations of the world as it is for raising the standards of life in the undeveloped areas themselves.

But here again the Bank, or any other outside agency, cannot really do the big part of the job. The future of these peoples is chiefly in their own hands. They must maintain and, in many cases achieve, a reasonable degree of political stability. They must put their own financial houses in order. Their people must show the willingness to work, the desire to make the effort for the better life towards which they look.

The Bank wishes to assist to the fullest in this challenging task of development. It is prepared to join in the ^{working out} ~~preparation~~ of sound development plans and to grant loans for carefully selected projects to get the wheels moving. It hopes to act as a catalyst to stimulate the flow into these countries of the private capital and know-how from the more highly developed areas; to encourage the growth of partnership between the material resources and manpower of the undeveloped, and the money and the technical and management skills of the better developed nations.

It was on this pattern that the United States developed and on this pattern alone, in my opinion, can the present underdeveloped nations assure their economic progress.

In these few minutes I have attempted to give you a brief picture of one international organization, and reflect its approach to some of the critical problems which we all face.

As we in the Bank go about our daily tasks we find that the staff of men and women from some 20 different nations is learning to work together.

The 13 Executive Directors, each of a different nationality and together representing 45 sovereign nations are, week by week, sitting around the table and agreeing on policies and actions. They are men of wide training and substantial accomplishment in their own countries. They represent a remarkable

diversity of knowledge and experience. Naturally, there are differences of opinion. We discuss and argue, but up to the present we have always reached a common conclusion, and it has never been necessary to call for a formal vote of the Executive Directors on any decision.

We in the Bank are proud of this record of unanimity. We believe people all over the world can gain reassurance from this record, demonstrating that their representatives in the World Bank are working together as a team. In these times when newspaper headlines all too frequently remind us of the differences between nations, let us not overlook the very substantial degree of real international cooperation being achieved, not only by the Bank but by many of the inter-governmental organizations which have been established in the effort to secure world peace and prosperity on a sound and lasting basis.

ADDRESS BY
ROBERT L. GARNER, VICE PRESIDENT
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
MEETING OF NEW ENGLAND COUNCIL
PORTSMOUTH, NEW HAMPSHIRE
SEPTEMBER 12, 1947

IN THESE BEAUTIFUL AND PLEASANT
SURROUNDINGS IT SEEMS UNGRACIOUS TO
RECALL THE DIFFICULTIES AND DANGERS
WHICH PLAGUE THE WORLD. HOWEVER, WE
CANNOT ESCAPE THEM.

THE UNITED STATES HAS JUST EMERGED
AS A VICTOR IN A TWIN WAR. IT HAS
DEMONSTRATED AN INCOMPARABLE PRODUCTIVITY,
TREMENDOUS VITALITY AND ITS TRADITIONAL
COURAGE AND FIGHTING SKILL. THE PEOPLE
OF THIS COUNTRY HAVE NOW PROBABLY THE
HIGHEST STANDARD OF LIVING EVER KNOWN.

BUT AMIDST THIS ACTIVITY AND GOOD
LIVING, GRAVE AND VEXING PROBLEMS REAR
THEIR HEADS -- THE HUGE DEBT AND HIGH
TAXES, DANGEROUSLY INCREASING INFLATION,
AND THE TROUBLED LABOR SITUATION.
PERHAPS OVER-SHADOWING THESE TROUBLES,

TO MANY AMERICANS, IS THE GRIM PICTURE OUTSIDE OF OUR BORDERS. A FEW SHORT YEARS AGO THE THREAT TO THE AMERICAN WAY OF LIFE WAS REPRESENTED BY GERMANY AND JAPAN. THEY LIE DEFEATED AND IN RUINS BUT THE STRUGGLE HAS NOT ENDED WITH THEIR DEFEAT. NEW, PERHAPS GRAVER, THREATS TO NATIONAL SECURITY, INDIVIDUAL LIBERTY AND PRIVATE ENTERPRISE HAVE ARISEN.

OUTSIDE OF THE IRON CURTAIN -- AND PERHAPS FOR MILLIONS OF INDIVIDUALS BEHIND IT -- GOVERNMENTS AND PEOPLE LOOK UPON AMERICA AS THE GREAT HOPE FOR RESISTING THE SWEEP OF POLICE STATE METHODS. ONE OF THE GREAT QUESTIONS TODAY IS WHETHER THE UNITED STATES CAN JUSTIFY THIS HOPE -- WHETHER IT CAN

CONTINUE

CONTINUE TO DEMONSTRATE THAT DEMOCRACY AND FREE ENTERPRISE PRODUCE THE STRENGTH TO DEFEND THEMSELVES, AND PROVIDE FOR THEIR PEOPLE A BETTER LIFE THAN IS PROVIDED BY EITHER COMMUNISM OR SOCIALISM.

NO GREATER CHALLENGE HAS EVER FACED ANY NATION, AND UPON NO SEGMENT OF THE PEOPLE DOES THE RESPONSIBILITY FOR MEETING THIS CHALLENGE REST MORE HEAVILY THAN UPON THE LEADERS OF BUSINESS AND FINANCE, OF WHICH THIS GROUP IS REPRESENTATIVE.

I SHALL NOT ATTEMPT TO DISCUSS THOSE FACTORS WHICH MAY AFFECT AMERICA-S INTERNAL STRENGTH NOR DWELL ON THE POTENTIAL THREATS TO IT -- SUCH AS THE GROWING SPIRAL OF INFLATION AND THE CONFLICTS AND MISUNDERSTANDINGS BETWEEN MANAGEMENT AND LABOR. HOWEVER, I DO

WISH

WISH TO DISCUSS BRIEFLY THE PART THAT BUSINESS LEADERSHIP MAY PLAY IN SOLVING THE PROBLEMS WHICH ARISE FROM AMERICA-S RELATIONS WITH THE REST OF THE WORLD.

THERE SEEMS LITTLE DOUBT THAT THE AMERICAN PEOPLE IN GENERAL HAVE COME TO REALIZE THAT THEIR COUNTRY IS NO LONGER PROTECTED FROM WHAT HAPPENS OUTSIDE ITS BORDERS. IT APPEARS THAT, BY AND LARGE, THEY BELIEVE THAT THEY SHOULD DO WHAT IS NECESSARY AND PRACTICAL TO HELP THE COUNTRIES DEVASTATED BY THE WAR TO GET BACK ON THEIR FEET. HOWEVER, THEY DEMAND THAT THEY BE GIVEN THE FACTS AS TO WHAT IS NECESSARY, AND BE ASSURED THAT THE FURTHER HELP WHICH THEY MAY EXTEND GIVES PROMISE OF ACCOMPLISHING ITS PURPOSE.

BASICALLY THE JOB OF EUROPE IS TO

REVIVE PRODUCTION AND TO RESTORE
FINANCIAL AND POLITICAL STABILITY.

LEADERS OF AMERICAN BUSINESS AND FINANCE
HAVE MUCH TO CONTRIBUTE IN THE SOLUTION
OF THESE PROBLEMS. IN THE FIRST PLACE,
AMERICAN INDUSTRY HAS AN INCOMPARABLE
KNOW-HOW IN PRODUCTION. ALSO, AMERICAN
FINANCE CONTROLS FUNDS WHICH CAN PLAY A
VITAL PART IN FINANCING THE PURCHASE OF
MATERIALS WHICH ARE ESSENTIAL TO THE
INCREASE OF PRODUCTION.

PERHAPS I CAN POINT OUT SOME OF THE
LINES ALONG WHICH PRIVATE AMERICAN
BUSINESS AND FINANCE CAN HELP IN INTER-
NATIONAL ECONOMIC RECOVERY BY DISCUSSING
BRIEFLY THE OPERATIONS AND POLICIES OF
THE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT.

AS YOU KNOW, THIS BANK WAS ORGANIZED IN 1944 AT BRETTON WOODS. ITS EIGHT BILLION DOLLARS OF CAPITAL IS OWNED BY FORTY-FIVE NATIONS, WITH THE UNITED STATES SUBSCRIBING ABOUT 38 PER CENT. ITS BOARD OF GOVERNORS, WHICH OPENED ITS SECOND ANNUAL MEETING TODAY IN LONDON, IS MADE UP OF FINANCE MINISTERS OR COMPARABLE OFFICIALS OF THE MEMBER GOVERNMENTS. I MIGHT MENTION THAT THE ANNUAL REPORT OF THE BANK HAS BEEN RELEASED TODAY, AND COPIES HAVE BEEN MAILED TO THE MEMBERS OF THE NEW ENGLAND COUNCIL.

THE BANK HAS A BOARD OF DIRECTORS, NOW THIRTEEN IN NUMBER, FIVE OF WHOM REPRESENT THE FIVE LARGEST STOCKHOLDERS AND EIGHT REPRESENT GROUPS OF SMALLER MEMBERS. ITS MANAGEMENT IS SET UP ALONG

CONVENTIONAL CORPORATE LINES. A FEW MONTHS AGO THE PRESIDENCY WAS ASSUMED BY MR. JOHN J. MCCLOY, FORMERLY ASSISTANT SECRETARY OF WAR, AND I BECAME VICE PRESIDENT.

OF THE EIGHT BILLION DOLLARS CAPITAL, 20 PER CENT HAS BEEN PAID IN FOR THE PURPOSE OF MAKING LOANS. THE BALANCE OF 80 PER CENT WILL BE PAID IN ONLY UPON CALL IN THE EVENT IT IS NECESSARY TO PROTECT THE OBLIGATIONS OF THE BANK. THE AMOUNT PAID IN INCLUDES ABOUT 730 MILLION AMERICAN DOLLARS. THE REMAINDER IS IN THE CURRENCIES OF OTHER MEMBERS.

BECAUSE AMERICA HAS SUCH A GREAT PREPONDERANCE OF THE GOODS WHICH OTHER NATIONS REQUIRE, THE REQUESTS TO THE BANK FOR LOANS HAVE BEEN ALMOST EXCLUSIVELY

FOR AMERICAN DOLLARS. THUS, AS A PRACTICAL MATTER, THE LOANABLE FUNDS AVAILABLE TO THE BANK CONSIST OF ITS 730 MILLION DOLLARS OF PAID IN CAPITAL PLUS 250 MILLION DOLLARS RAISED THROUGH THE SALE IN JULY OF ITS OWN BONDS TO AMERICAN INVESTORS. OUT OF THESE FUNDS IT HAS WITHIN THE PAST FEW MONTHS LOANED 497 MILLION DOLLARS TO FRANCE, HOLLAND, DENMARK AND LUXEMBOURG.

ADDITIONAL LOANABLE FUNDS MUST BE RAISED THROUGH THE SALE OF BONDS TO INVESTORS, AND FOR A TIME SUCH SALES WILL NECESSARILY BE LARGELY TO AMERICANS. AS OTHER MEMBER NATIONS RECOVER THEIR PRODUCTIVITY AND FINANCIAL STRENGTH THEIR OWN CAPITAL SUBSCRIPTIONS SHOULD ALSO BECOME AVAILABLE FOR LOANS.

THE LOANS OF THE BANK MUST BE FOR PRODUCTIVE PURPOSES, THAT IS, TO PROVIDE EQUIPMENT AND MATERIALS TO REBUILD THE PRODUCTION OF THE WAR DEVASTATED MEMBER COUNTRIES AND TO CREATE NEW PRODUCTIVITY IN THE LESS WELL DEVELOPED NATIONS. WE ARE MAKING LOANS WITH CARE, ALWAYS BEARING IN MIND THAT WE EXPECT THEM TO BE REPAID IN FULL.

THUS YOU WILL UNDERSTAND THAT EVEN IF THE LOANABLE FUNDS OF THE BANK WERE NOT LIMITED, AS THEY ARE, IT COULD NOT DO THAT PART OF THE RECONSTRUCTION JOB WHICH INVOLVES PROVIDING THE NECESSARY FOOD AND OTHER SUSTENANCE GOODS WHICH CERTAIN OF THE WAR DEVASTATED NATIONS NOW DESPERATELY NEED. HOW TO FILL THIS NEED IS NOW THE SUBJECT OF INTENSE STUDY

BOTH

BOTH IN EUROPE AND IN WASHINGTON.

IT IS CLEAR THAT THE BANK-S LOANS CANNOT FINANCE ALL THAT EUROPE REALLY NEEDS OF THE TOOLS AND MATERIALS ESSENTIAL FOR THE INCREASED VOLUME OF PRODUCTION WHICH IT REQUIRES. WHAT THE BANK CAN DO IS TO MEET THE MOST URGENT NEEDS, SO THAT AS THE INCREASED OUTPUT OF GOODS FORMS A BASIS FOR THE GROWTH OF TRADE AND THE RE-ESTABLISHMENT OF GREATER FINANCIAL STABILITY, PRIVATE CAPITAL CAN GRADUALLY TAKE OVER THE FINANCING OF PRODUCTION AND COMMERCE.

EUROPE-S NEED FOR AMERICAN DOLLARS IS BASICALLY THE NEED FOR AMERICAN GOODS TO FILL THE GAP UNTIL EUROPE CAN RESTORE ITS OWN PRODUCTION. TO THIS RESTORATION AMERICAN INITIATIVE, KNOW-HOW AND METHODS

CAN

CAN MAKE A GREAT CONTRIBUTION. IN PART THIS MAY COME ABOUT THROUGH GOVERNMENTAL AGREEMENTS. HOWEVER, WHAT I WISH TO EMPHASIZE HERE IS THAT INDIVIDUAL COMPANIES, IN THE SOUND DEVELOPMENT OF THEIR OWN BUSINESS AND EXPANSION OF THEIR MARKETS, MAY DO MORE THAN ANY GOVERNMENT AGENCIES TO SPREAD THE BENEFITS OF AMERICAN SKILLS AND EXPERIENCE.

A SUBSTANTIAL NUMBER OF AMERICAN COMPANIES ARE ESTABLISHING NEW FACTORIES AND ACQUIRING INTERESTS IN COMPANIES IN ENGLAND AND ON THE CONTINENT, AND THUS INTRODUCING INTO THESE COUNTRIES AMERICAN CAPITAL, MANAGEMENT AND PRODUCTION TECHNIQUES. THESE INVESTMENTS ARE BUSINESS VENTURES BY HARD HEADED MEN WHO

BELIEVE IN EUROPEAN RECOVERY AND ARE EXPECTING TO GET A FAIR PROFIT OUT OF THEIR MONEY AND EFFORT.

MANY OF THE COMMERCIAL BANKS IN THIS COUNTRY HAVE HAD A LONG EXPERIENCE IN FINANCING FOREIGN TRADE, UNTIL THIS BUSINESS WAS GREATLY RESTRICTED DURING THE DEPRESSION OF THE 30-S. THEY HAVE BEEN SLOW TO RESUME THIS BUSINESS IN THE POSTWAR PERIOD. DESPITE THE ECONOMIC AND POLITICAL UNCERTAINTIES INVOLVED, THE BRITISH BANKS ARE CARRYING ON A LARGE VOLUME OF FINANCING INTERNATIONAL TRADE, AND IT WOULD SEEM UNFORTUNATE IF THE BANKS IN THIS COUNTRY HELD ALOOF TOO LONG FROM THIS TYPE OF NORMAL BANKING BUSINESS.

AMERICAN BUSINESS AND BANKING HAS
BEEN

BEEN BUILT UP ON THE BASIS OF INITIATIVE, OF TAKING REASONABLE BUSINESS RISKS, AND OF DEMONSTRATING INGENUITY AND BOLDNESS. THIS IS A PART AND PARCEL OF THE AMERICAN FREE ENTERPRISE SYSTEM. IS IT TOO MUCH TO EXPECT THAT IT CONTINUE TO SHOW THE SAME CHARACTERISTICS IN THE PRESENT PERIOD?

THE INTERNATIONAL BANK IS CHARGED NOT ONLY WITH THE PROMOTION OF INTERNATIONAL TRADE AND OF PRIVATE FOREIGN INVESTMENT IN CONNECTION WITH THE RECONSTRUCTION OF EUROPE, BUT ALSO AS RELATED TO THE ECONOMIC DEVELOPMENT OF THE LESS WELL DEVELOPED AREAS, THE ECONOMIC FRONTIERS OF THE WORLD. OF SUCH AREAS, LATIN AMERICA IS ESPECIALLY IMPORTANT TO THE UNITED STATES.

OUR SOUTHERN NEIGHBORS HAVE HUGE RESOURCES OF MATERIALS -- COPPER, TIN, IRON ORE, TIMBER, OIL -- TO MENTION A FEW -- WHICH IN INCREASING DEGREE ARE ESSENTIAL TO THE NEEDS OF AMERICAN INDUSTRY IN PEACE AS THEY PROVED VITAL DURING THE WAR. ON THE OTHER HAND, THERE IS A HUGE POTENTIAL MARKET FOR AMERICAN-MADE GOODS IN THIS AREA.

THE AMOUNT OF ITS OWN FUNDS WHICH THE BANK MAY HAVE AVAILABLE FOR LOANS IN CONNECTION WITH DEVELOPMENT IN THESE STILL UNDERDEVELOPED LANDS CAN ONLY BE A SMALL FRACTION OF WHAT WILL BE REQUIRED. EXPERIENCE SHOWS THAT THE SOUND PROGRESS OF UNDEVELOPED AREAS HAS BEEN THE RESULT OF A COMBINATION OF THEIR RESOURCES AND MANPOWER WITH THE

CAPITAL AND KNOW-HOW FROM THE MORE MATURE AND ECONOMICALLY DEVELOPED NATIONS. I BELIEVE THAT LATIN AMERICA MUST RELY PRIMARILY UPON PRIVATE FOREIGN CAPITAL AND BUSINESS TO ASSIST IN ITS DEVELOPMENT.

HOWEVER, THE CAPITAL AND KNOW-HOW WILL NOT BE AVAILABLE UNLESS FAVORABLE CONDITIONS EXIST. WHERE, AS IN THE CASE OF A NUMBER OF LATIN AMERICAN COUNTRIES, CREDIT HAS BEEN IMPAIRED THROUGH FAILURE TO MEET OBLIGATIONS, STEPS MUST BE TAKEN TO RESTORE THIS CREDIT. THESE COUNTRIES MUST PUT THEIR FINANCIAL HOUSES IN ORDER TO CREATE THE NECESSARY CONFIDENCE. THEY MUST OFFER A FAIR DEAL TO FOREIGN CAPITAL AND MANAGEMENT, AT THE SAME TIME THAT THEY INSIST THAT THE LATTER REFRAIN FROM THE EXPLOITATION WHICH IN THE PAST HAS

NOT

NOT BEEN UNKNOWN. PERHAPS AS AN INTERNATIONAL ORGANIZATION THE BANK MAY HELP TO INDUCE THESE COUNTRIES TO TAKE THE NECESSARY STEPS.

THE BANK IS PREPARED TO ASSIST ITS UNDEVELOPED MEMBER COUNTRIES TO WORK OUT SOUND ECONOMIC AND FINANCIAL PROGRAMS AND TO FINANCE CAREFULLY SELECTED KEY PROJECTS. HOWEVER, I WISH TO EMPHASIZE OUR CONVICTION THAT LATIN AMERICA MUST SEEK THE MAJOR PART OF THE CAPITAL IT REQUIRES AT THIS STAGE OF ITS DEVELOPMENT BY ENCOURAGING DIRECT INVESTMENT BY AMERICAN COMPANIES. MANAGEMENT GOING ALONG WITH ITS MONEY GIVES THE BEST PROMISE OF BENEFIT ALL AROUND.

THE EXPERIENCE OF AMERICAN BUSINESS IN LATIN AMERICA AND ELSEWHERE HAS BEEN

NEITHER

NEITHER ALL BLACK NOR ALL WHITE. SOME COMPANIES HAVE SUFFERED LOSSES, BUT MANY OTHERS HAVE PROFITED WELL. IN THE UNDEVELOPED AREAS HIGH PROFITS ARE THE ACCEPTED REWARD FOR SUCCESSFUL ENTERPRISE.

UNQUESTIONABLY THERE HAS BEEN SUSPICION AND EVEN HOSTILITY TOWARDS FOREIGN CAPITAL AND ENTERPRISE IN SOME OF THE LATIN AMERICAN COUNTRIES. HOWEVER, THERE ARE SIGNS OF REVERSAL OF THIS ATTITUDE AND AN INCREASING DESIRE ON THEIR PART TO ENCOURAGE AMERICAN BUSINESS AND CAPITAL TO COME INTO THEIR COUNTRIES ON A FAIR AND EQUITABLE BASIS. WE IN THE BANK ARE MOST DESIROUS OF ENCOURAGING AND ASSISTING IN THIS PROCESS.

I HAVE ATTEMPTED TO GIVE YOU A BRIEF PICTURE OF THE INTERNATIONAL BANK --

WHAT

WHAT IT IS, ITS PURPOSES, AND SOME OF ITS GUIDING PRINCIPLES. I HAVE TRIED TO BRING OUT THAT THE BANK MUST LOOK TO PRIVATE INVESTORS, AT PRESENT PRINCIPALLY IN THE UNITED STATES, FOR MOST OF ITS LOANABLE FUNDS. THE BONDS WHICH IT SELLS HAVE BEHIND THEM LOANS MADE FOR PRODUCTIVE PURPOSES TO MEMBER GOVERNMENTS OR GUARANTEED BY THEM OR THEIR INSTRUMENTALITIES. AS ADDITIONAL PROTECTION FOR THESE BONDS STANDS THE UNQUALIFIED RIGHT OF THE BANK TO CALL UPON EACH MEMBER GOVERNMENT FOR ITS UNPAID SUBSCRIPTION, OF WHICH THE AMOUNT CALLABLE FROM THE UNITED STATES GOVERNMENT ALONE IS MORE THAN TWO AND ONE-HALF BILLION DOLLARS. THUS, THROUGH THE BANK, AMERICAN INVESTORS CAN ASSIST IN WORLD

RECOVERY WITH UNIQUE PROTECTION FOR
THEIR FUNDS.

FURTHERMORE, I HAVE EMPHASIZED
THAT THE BANK CAN MERELY HELP GET UNDER
WAY BOTH THE RECOVERY OF EUROPE AND
THE DEVELOPMENT OF UNTAPPED RESOURCES
ELSEWHERE, IN THE HOPE THAT PRIVATE
CAPITAL AND PRIVATE BUSINESS WILL
ULTIMATELY TAKE OVER THIS JOB. THE
INITIATIVE, GENIUS FOR PRODUCTION AND
GENERAL KNOW-HOW OF AMERICAN PRIVATE
ENTERPRISES, WHICH HAS MADE THE UNITED
STATES THE MOST POWERFUL AND WEALTHY
NATION, CAN BE THE FORCE WHICH WILL LEAD
THE WORLD OUT OF ITS PRESENT MORASS.

WK

SPECIAL EVENTS RECORDING

TITLE: RADIO FORUM ROUNDTABLE: THE UNITED STATES AND THE INTERNATIONAL BANK
(FOR USE ON SATURDAY 5/23 and SUNDAY June 1)

INDEX # EN-3-1528

TIME 13:25

Recorded 5/23/47

NOTE: This program originating in Washington presents a discussion on the United States and the International Bank, highlighting the establishment of the World Bank and how it was established, the functions and aims of the World Bank, etc. Participants in this discussion were Mr. Robert L. Garner, Vice-president of the International Bank for Reconstruction and Development; and Mr. John Parke Young, an advisor in the Office of Financial and Development Policy of the United States Department of State. Chairman of the discussion was Ben Wilbur.

TEXT

ANNCR: This is New York the United States of America. The Voice of the United States of America presents the Radio Forum. Every week at this time we broadcast an informal roundtable discussion by experts in political scientific or industrial fields on the major affairs of the day. Today's program, broadcast from Washington, presents a discussion of "The United States and the International Bank." Chairman of the Forum is Ben Wilbur. We take you now to Washington and Mr. Wilbur.

WILBUR: On May 9th, it was announced here in Washington that the International Bank for Reconstruction and Development had made a loan to France of 250 million dollars. We have come to the building on H Street in Washington to talk with two men who have an important interest in the Bank and America's part in it. They are first Mr. Robert L. Garner, who's Vice-president of the International Bank and Mr. John Parke Young an advisor in the Office of Financial and Development Policy in the United States Department of State. We'd like to ask Mr. Young first who's responsible for the establishment of the World Bank and how was it established? Mr. Young:

YOUNG: Well, Mr. Wilbur, in the early days of the war we realized that after the war there's be a need for funds for reconstruction and rehabilitation of European countries and also the countries of the Far East and we also realized that permanently there'd be need for a bank or funds of some kind for development purposes so we began giving thought to just what we could do. We lacked machinery, private investment wasn't very adequate for the huge needs that we anticipated. We had conferences here in Washington with a great many representatives of foreign governments as to what should be done and out of all those conferences came the Bretton Woods Conference. That was held in the summer of 1944.

WILBUR: And you were there, weren't you, Mr. Young?

YOUNG: Yes, I had the pleasure of being there and at that conference we drafted the articles of agreement which are now the charter of the International Bank.

WILBUR: We heard a lot about Bretton Woods and we're glad to see this result. Now turning to Mr. Garner, we'd like to ask him just what are the purposes of the International Bank?

GARNER: The purposes of the Bank are to lend to countries, to assist them in developing the productive resources.

WILBUR: Would you say, it's a relief organization?

GARNER: No, it is not a relief organization, it is not supposed to make gifts. Its loans are supposed to be made on the basis that they can be repaid and we believe that if they are made for productive purposes they will be repaid.

WILBUR: What about America's part, what about the part of the United States in this bank, Mr. Young?

YOUNG: In addition to giving a lot of thought and effort in the organization of the Bank, the United States is contributing about 40% of the capital of the Bank. Now, of course that doesn't mean that it's a United States Bank because there are 44 countries that are represented in the bank. The Board of

YOUNG: Directors consists of 12 officials from 12 different countries and the other countries are also represented in the staff of the Bank. It's really an international institution.

WILBUR: But up to the present time most of the money comes from the United States.

GARNER: Well, this is the situation now. The United States and the other countries have paid in about 700 million dollars in American currency. All the world wants to borrow under the existing circumstances American dollars and therefore the chief source of our lending must be these American dollars.

YOUNG: That won't always prevail, will it? Don't you expect sometime we can loan more than dollars?

GARNER: Oh, we are very anxious to loan other currencies and the Bank will not have really achieved its international character until the currencies of other member countries are available to loan. We believe that as countries recover, get over the hump that many of the other members will make their currencies available to loan.

WILBUR: Are you planning any additional loans other than the one to France that was announced recently?

GARNER: Yes, we have a number of loans under consideration and we hope that within the comparatively short future we will be able to announce additional loans.

WILBUR: Well now Mr. Young, as an American and representing America's interest in the Bank, how do you see the Bank helping world business and world trade?

YOUNG: Well, the world needs a lot of funds in order to reconstruct its industries and to finance current trade and a great many countries just do not have the funds for reconstruction, development, or for financing operations. So the International Bank is in a position to help finance productive enterprises and projects all over the world whenever the indications are clear that the funds can be put to productive work.

WILBUR: Well, now, can you say what those projects will be, Mr. Garner?

GARNER: Well, they'll be a great variety of things. They may be a steel mill, they may be to supply coal for existing railroads or existing mills. It may be the supply of fertilizers. Anything that goes to increase sound production and build up trade and thus the economic strength of the country.

WILBUR: Is the Bank in a position to dictate what projects will be developed?

GARNER: We don't attempt to dictate. The applicant comes to us with a program which we discuss thoroughly and as a result of that discussion we come into agreement as to what parts of the country and what projects the Bank is willing to loan.

YOUNG: Isn't it true that the project must be in a member country. The money is only available for a member country?

GARNER: We can only loan in member countries, that's correct, Mr. Young, and the loan made must be either the direct obligation of the member government or guaranteed by the member government or the central bank or similar organization.

WILBUR: Let's review that. There are 44 countries at present, is that right, with Australia coming in August of this year making 45?

GARNER: That is correct.

WILBUR: Well, now, what about the contribution of all this to world peace. Mr. Young?

YOUNG: Well, I don't see how you can expect to have a good background for world peace unless the economic conditions throughout the world are reasonably stable and that's one thing the International Bank can do, it can help restore productivity and create economic stability so that you can have a background for world peace and security.

WILBUR: How about the organization of your Bank, Mr. Garner. You've been responsible for some of that organization, I know. It's of real international character.

- GARNER: Yes, Mr. Young said the directors of the Bank represent the 44 nations. The staff of the Bank is quite international in character. We have a good ~~representative~~ representation from a number of the countries and it's our intention to go further in developing the international character and the geographical distribution of our staff.
- WILBUR: Well, could you give us an example of what parts of the world are represented in the organization?
- GARNER: Well, I might say that among the department heads we have Canadians, Dutchmen, French, English; we have some Latin Americans in important positions and some Chinese. It's a pretty good distribution among the nations. We haven't got a big organization but we're trying to make it representative.
- WILBUR: All of them contributing their own specific knowledge of --
- GARNER: --of conditions and experience.
- WILBUR: Yes, well now Mr. Young, I've seen in the name of the Bank this word "development". That's interesting to me. "Reconstruction" is the first need of course, but you're emphasizing -- as we were talking before -- the development problem.
- YOUNG: Yes, it is realized that the Bank will have to finance development projects, that reconstruction will eventually be completed and that there is also a great need all over the world for development projects. Certain parts of the world are quite undeveloped and the Bank is very much interested in doing what it can to help the areas that need development and diversification of industries and so on so that while the immediate need has been reconstruction, the Bank is looking to the future when the main job of the Bank will be development loans.
- GARNER: That's perfectly true, Mr. Young.

WILBUR: Well, now, so we've covered this business of aid to the countries that need help. Mr. Garner, you were saying that there were many things that the the other countries needed to know about the work that is being done and the projects that are being considered.

GARNER: Well, there are two angles on that. We feel that the Bank can only help those people who want to help themselves and we find that there are a great many people in the world that want to make an earnest effort to improve their own situation. Those people the Bank wishes to help. Another point that I think is worth mentioning, I said the Bank now has only about 700 million dollars - American dollars - to loan. We've got to have more money and the way that we can get additional funds is by selling the bonds of the Bank to private investors. At the present time, those private investors seem to be largely in the United States and we expect within the next few months to offer our first bond issues. However, again emphasizing the international character, we hope as time goes on that the bonds of the Bank will be sold to investors in a great many of the member countries.

WILBUR: Now, Mr. Young, did you have something to add to that?

YOUNG: No, I think that's very well put that the Bank is an International Bank and eventually must look to all the world to help provide the funds which are loaned to the different countries. The countries that need it are supplied by funds from the countries that have capital to export and while the United States today is the principal country that has capital available for export that situation, we hope and expect will not prevail indefinitely.

GARNER: I'd like to point out on that that some of the countries, particularly those in Western Europe that now are badly in need of funds in the past have been great creditor countries and we hope that as their reconstruction goes on they will again resume the role of lending to other countries for development purposes.

WILBUR: Now, let's go back to this loan to France. What are the implications behind that loan, what should we know about that? Mr. Garner?

GARNER: Well, the first thing, it is significant because it was our first loan and we believe it is appropriate that that first loan was made to a country who's economy is so important in the world. We think that that loan will be like a pebble dropped in the pond, that the effects of the money being spent by France to build up her production will expand and help not only her but the economy of many other countries.

WILBUR: Thank you very much, gentlemen. It's been a pleasure to visit with you here in Washington and to discuss with you the work of the International Bank for Reconstruction and Development. Thank you very much.

ANNOR: And so we come to the end of the RADIO FORUM. This discussion of the United States and the International Bank brought you Mr. Robert L. Garner, Vice President of the International Bank for Reconstruction and Development and Mr. John Parke Young, an advisor in the Office of Financial and Development Policy of the United States Department of State. Chairman of the discussion was Ben Wilbur.

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