



PRESS RELEASE

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Address

of

Eugene Meyer

before

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When I was invited to be your guest I was President of the International Bank for Reconstruction and Development. I no longer hold that position, but I am delighted to have the opportunity to express my appreciation of the fine cooperation I received from the Canadian representatives in the work of building the foundation of the Bank's organization. I am especially happy to express publicly my gratitude to Mr. Robert Bryce, the Canadian Executive Director, and to Mr. Graham Towers, the Canadian Governor, of the Bank.

While I do not now represent the Bank, I would like to tell you something about it. But before doing so let me say this. There has been considerable discussion about the reason for my withdrawal from the Bank. The reason stated in my letter to the Executive Directors was the real reason and the only reason. The basic organization of the Bank had

been developed; general policies and procedures had been weighed by the Executive Directors and the staff and had been formulated so far as this could be done in advance of actual lending operations. The Bank was passing from the preliminary work of preparation to the stage of operating activities. From then on its work had to be viewed in terms of long-time continuous operations. I was asked to launch the Bank--to organize it and get it started. Having carried out what I had undertaken to do, I felt that the moment had arrived when the permanent President of the Bank should be appointed.

During or after World War I, little thought was given to what would happen to international trade following the discontinuance of loans to our Allies by the U. S. Government. It was necessary, it seemed to me, to have some special facilities for financing international trade which would act as a bridge during the transition from war to peace.

At that time I was Managing Director of the War Finance Corporation, a Government owned corporation with capital of \$500,000,000 and large borrowing capacity. I proposed an amendment to convert the Corporation into an export bank--not to make loans to foreign borrowers but to American exporters or to institutions which financed American exporters. This amendment was adopted by the Congress.

Let me read you a short extract from my testimony

before Congress on this proposal, given on February 23, 1919:

"The countries associated with us in the war have used up an important part of their resources in the long struggle, especially when we consider their resources from the point of view of international trade. They must economize nationally, and work to regain their lost peace industries as must we, as well.

"They have endured a longer and greater economic and financial strain than we. Left to the limits of their own resources, it will take them a long period to build up their international commercial relations. Unless we extend credits to them, they will be unable to buy from us largely until they can restore their exports and sell to us and others.

"We need at once and on a large scale an outlet for great quantities of our products. We cannot sell if we demand payment now, because our customers have neither the gold nor the goods nor securities marketable in this country with which to make payment.

"We should put our people in a position to extend credit for long enough periods of time to encourage and justify the purchase of our products. It is intended primarily to help our own industry, our own labor, our own finance, and thus our own national well-being.

"Nevertheless, a prompt restoration of international trade will do much more. It will enable Europe to restore its industry and employment of labor, and thus to hasten its political and social peace. Unemployment and hunger are the surest sources of social disorder."

This picture has many similarities with the present. In World War II the destruction of the machinery of production and the disruption of economies were on a vastly greater scale. But, when your Government loans and ours come to an end, disorganization of international trade would follow if other facilities for meeting the needs were not available.

The objective of the International Monetary Fund, the charter of which, like that of the Bank, was framed at Bretton Woods, is to promote stability in international exchanges. Fluctuating currencies destroy the ability to make contracts extending over a period of time, which are essential to a highly developed international trade.

International loans obviously are necessary now for the reconstruction of the areas suffering from direct or indirect war devastation and general economic impairment. There is need also for long term loans to aid the less developed countries in improving their economic organization and in raising their standards of living. These needs were

generally understood during and toward the end of World War II and the International Bank was created to deal with them on a comprehensive scale.

Forty of the nations which participated in the Bretton Woods Conference became members of the Bank--two of them recently--and subscribed its capital. Each member appoints a Governor and each Governor has an Alternate. The Governors, who meet once a year, are entitled to vote the shares of the Bank's capital subscribed by their governments.

There are also twelve Executive Directors, each of whom likewise has an Alternate. Each of the five members having the largest subscriptions to the Bank's capital appoints one Director; the remaining thirty-five members elect the other seven Directors. The authority of the Governors with respect to the day-to-day operations of the Bank has been delegated to the Directors, who generally meet twice a week to act upon the Bank's business and consider questions of policy.

The President is Chairman of the Executive Directors. He is also the chief executive officer of the Bank and, as such, is responsible for the appointment and supervision of the operating staff, subject to the general control of the Directors.

The Articles of Agreement provide that the staff shall be recruited on as wide a geographical basis as is

practicable. This, of course, involved some difficulty and delay, but it is important that the staff should be international. A fine group of men has been brought together and I have confidence in the ability and character of the personnel.

Chester A. McLain, an able lawyer who had had extensive experience abroad as well as at home in matters relating to international finance, was selected as General Counsel. He came to the Bank from the law firm of Cravath, Swaine & Moore in New York. A Canadian, Charles C. Pineo, is Director of the Loan Department. Until recently, he was an officer of the Royal Bank of Canada in charge of their foreign branches and is a man of competence and experience. Mr. Pineo is ably supported in the work of his Department by Arthur S. G. Hoar, who came from the Bank of England. The Treasurer, D. Crena de Iongh, formerly was President of one of the large banks in the Netherlands.

A French economist, Leonard B. Rist, is Director of the Research Department. Before the war he was Vice President of Morgan & Cie in Paris. A lawyer from Montreal, Morton M. Mendels, is Secretary of the Bank. In the Canadian Army, from which he was released early in 1946, Mr. Mendels was responsible for military estimates, finance and economic studies. Harold D. Smith, formerly Director of the Budget of the United States, who accepted the position of Vice President at my request, tendered his resignation



when I left the Bank. He is, however, continuing to serve pending the election of my successor.

The resources and facilities of the Bank are solely for the benefit of its members. It may make or participate in direct loans, or it may guarantee in whole or in part loans made by private investors through the usual investment channels. If a member itself is not the borrower, then the member or its central bank, or some other comparable agency acceptable to the Bank, must fully guarantee the loan. Loans made or guaranteed by the Bank must be for the purpose of specific projects of reconstruction or development, except in special circumstances.

The subscribed capital of the Bank is over seven and a half billion dollars. This total will be increased to approximately eight billion dollars when additional countries whose applications have been accepted become members. Twenty per cent of this amount may be called by the Bank for working capital. Ten per cent, or about \$750,000,000, became payable by November 25. The remaining 10%, called for payment in February and May 1947, will bring the total to approximately one and a half billion dollars. One half of this sum, or about \$750,000,000, will be in gold or U. S. dollars, the remainder in other currencies of the member countries. The remaining 80% is subject to call only for the purpose of meeting the Bank's obligations.

A short time ago it was stated in an article in a New York newspaper that the question had been raised as to whether, if one or more members defaulted in the payment of calls on their subscriptions, the Bank could make additional pro rata calls until the amounts paid in by non-defaulting members up to the full amounts of their respective subscriptions should be sufficient to meet the obligations of the Bank. In addressing the meeting of the Life Insurance Association of America at New York in December, I took occasion to refer to this article. I quoted the opinion of the General Counsel of the Bank that the obligation of each member on its subscription to the capital of the Bank is independent of the obligations of other members. In case some members fail to respond to a call on their subscriptions, he stated, the Bank may continue to make pro rata calls, up to the full amount of its capital subscribed and unpaid, until the amount received by the Bank is sufficient to meet its obligations for funds borrowed by it or on guarantees made by it.

Aside from its working capital, which can be used as a revolving fund for the making of loans, it will be necessary for the Bank to obtain the funds required for its lending operations through the sale of debentures in the public markets from time to time. For the present at least, this means the markets of the United States and possibly



also of Canada.

The Bank's debentures will have behind them not only its loan portfolio, its reserves and its paid-in capital on hand, but also the liability of the members for the remaining 80% of their subscriptions. The commission of from 1 to 1-1/2% which the Bank is required to charge on all loans must be held in liquid form as a special reserve to meet the Bank's liabilities. This reserve should amount to a substantial sum after the first years of operation. The portfolio, together with reserves, surplus arising from operations and subscribed capital, cannot be less than 200% of the Bank's obligations. The Bank's loans and guarantees cannot exceed its unimpaired subscribed capital, reserves and surplus.

Clearly, the framers of the Articles of Agreement intended to make every effort to assure a conservative operation.

The means at the disposal of the Bank are large, as they should be considering the needs. Great credit is due to the men of the member nations who conceived and worked to create the two great world organizations--the Bank and the Fund--and a heavy responsibility rests upon those entrusted with the task of conducting their operations. The restoration of world order and peace depends in no small measure upon their courage, wisdom and success. They must succeed.

War finance, and even postwar finance up to this

time, had to be conducted on a scale and with a liberality unrelated to peacetime finance. Now that we are in the transition from war to peacetime finance, consideration must be given to the careful use of credit. As I once said many years ago: "Credit is a little like some drugs. In the hands of people who know its powers but also its dangers it is the most helpful, useful and healing thing in the world. But like those drugs, with misuse, with carelessness and with habitual indulgence to excess, it can become the most demoralizing, disintegrating and destructive agency."

Both our countries are deeply concerned and interested in the restoration of international trade. Canada, as a result of its accelerated industrial growth, now depends on export markets for about one-third of its volume of business. This means that the world is depending greatly on you, as it is upon us, for essential supplies and the credit needed to acquire them. Business is good only when it is good for both parties and financial machinery is effective only when it is adjusted to the fundamentals of existing situations. Finance is essentially a part of the mechanism for the production and distribution of goods. To be successful, it must always be conducted with that fundamental conception.

Your country and ours were blessed with the power to lend great strength to the war against dictatorships.

Now, likewise, we must lend our strength toward winning the peace. We have both recognized the world needs and have acted in unison to meet them. Money, of course, is not enough. Production of the things needed abroad, as well as at home, is essential. For, without full production, money is an idle investment. The availability of materials no less than credit is required to help restore the devastated areas and their productive facilities. In other words, we must help them to help themselves.

This postwar cooperation is nothing new to your country and mine. We learned it through sheer necessity during the war. When the stake is self-preservation, every effort of which human beings are capable is brought into action. The scale of cooperation developed by our two governments in the war was in proportion to the need. Even before the United States entered the conflict, over 12,000 U. S. citizens had joined your armed forces. After our entry, many Canadians became members of the U. S. armed forces.

We joined Canada in the construction of air and naval bases in Newfoundland for North Atlantic defense and transferred to it anti-aircraft and seacoast guns for the defense of your maritime provinces. Study and preparations were made for air routes to Alaska and ferry routes across Hudson Bay and from Labrador to Greenland, Iceland and the United Kingdom. We also joined in the construction of air

bases and facilities throughout Canada for combined operation.

Committees to further the war effort were organized to enhance our mutual military efficiency. Many operational plans were joint efforts of your forces and ours. After VE Day, plans were perfected for training a Canadian Army division in the United States to work with the U. S. forces in the Pacific against Japan. Military personnel from both countries were trained in each other's schools, and the exchange of intelligence techniques and information was extensive. The great part that your Navy played in the arduous duty of convoying Allied vessels in the North Atlantic is known, but not as widely as it should be.

All these things were done to promote our mutual and joint security. Techniques were developed which made rapid progress during the war, especially toward the end, so that security for either of us means security for both of us. Our positions and interests in the work of reconstruction are similarly interwoven now and for the future.

The border of political sovereignty did not prevent both nations before the war from developing close and friendly relations, politically and economically. The new importance of the air and the stratosphere makes a boundary mean less than ever. When a threat confronts either of us, it confronts both of us. Such a threat, if it occurs, may

come upon us very suddenly.

Canada in a remarkable way has come into its own, economically and internationally, during the past few years. The rapid industrialization made necessary by war had been proceeding for many years. The war merely accelerated the pace of an existing trend. You are strong in natural resources and you have a people capable of using them efficiently. Therefore, the part you are playing and will play in the future cannot be measured in terms of population. Beyond the resources of men, materials, skills and efficiency, there is the strength that is derived from ideals of human freedom and from the promotion of education, health and well-ordered liberty. The United States knows and respects the ties that bind you as one of the nations composing the British Commonwealth. But there are ties which arise from the physical conditions of your existence and ours that are no less binding and strong. The pursuit of your interests in both directions is in harmony with our own interests and with sound policy.

What is needed in international relations is better understanding widely distributed among the peoples of our countries. This is a burden of leadership. Too often leadership, even where it has the understanding and knowledge, either lacks the ability or fails to recognize the necessity of keeping the people informed promptly and comprehensively.

An informed electorate is necessary in a democratic country if sound policies are to command political support in a rapidly moving world. The education of the people is not only a burden of political leadership, but also of the leadership in educational institutions and of the press. I mean the newspapers, the weekly and monthly magazines and the publishers of books. If books on international affairs are to be published only at \$3.00 or more, they cannot reach the masses of our countries. If newspapers neglect international news in the areas less closely in contact with foreign business and travel, they are keeping their people in ignorance regarding matters about which it is vital that they be informed.

Twice in thirty years you and we have found ourselves at war. Peaceful nations as we are, desiring to live and let live in peace and freedom, we found ourselves inevitably involved in world conflicts. We were too slow in understanding the causes and forces which swept us into these wars. But we had no choice as to whether we should or should not be involved. We acted from compulsion. There was no question as to whether or not we wanted to fight. Our self-preservation was at stake.

A strong working cooperation between our two countries will not only protect our continent, but will enhance our usefulness as members of the United Nations.



It may well achieve far more than that. If we do not allow minor difficulties to upset major considerations, if we are wise enough to build upon the common foundations achieved during the war and strengthened now by our common responsibility toward the world, we may be able to convince other nations that similar good relations are possible between all peoples of goodwill. I am convinced that you and we, through continued understanding and cooperation, can make notable contributions to a better world with more freedom and better living conditions for all nations.

That, my friends, is why it gives me such pleasure to be with you and to enjoy your gracious hospitality.