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ADDRESS  
BY  
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AT THE ANNUAL MEETING  
OF THE  
ACADEMY OF  
POLITICAL SCIENCE

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**E**CONOMIC circumstances set the stage for political action. Indeed, they do more than this. They provide the inescapable conditions under which political relations may be shaped. There is a marriage partnership between politics and economics in which divorce is an impossibility. And because of this marriage, it is as true that there can be no enduring peace without a decent level of prosperity as that there can be no prosperity without peace.

It seems to me peculiarly appropriate, therefore, that the Academy of Political Science should take interest in an institution, the International Bank for Reconstruction and Development, which is designed to operate in the economic sphere. The Academy's sound understanding of the vital connection between politics and economics—and of their joint impact upon social progress—is well attested, I think, by its choice of a general topic for the meeting: "Developing a Working International Order—Political, Economic and Social."

Perhaps it will be useful if I review for you very briefly the genesis of the International Bank and attempt some definition of the functions it was designed to fulfill. The Bank had its origin in a general recognition that the widespread devastation which the war had brought to Europe and the industrial backwardness or underdevelopment of certain countries menaced the economic health of the whole world. And it was plain to those who viewed this problem that the capital loans required to meet it would be beyond the capacities of private investors or even of governments acting unilaterally. The problem was of such magnitude that it could be met only through world cooperation.

Accordingly, at the invitation of the United States, representatives of 44 nations met at Bretton Woods, New Hampshire, early in the summer of 1944 and framed the constitutions of two complementary institutions—the International Monetary Fund and the International Bank.

The essential objective of the Fund is the revival and expansion of international trade through the promotion of exchange stability and the elimination of the destructive exchange practices which inhibited the flow of world trade before the war.

The essential objective of the Bank is to promote the international flow of long-term capital and to assure funds for the reconstruction of devastated areas and the development of resources in member countries.

Together, these institutions, wisely and effectively administered, can help nations and peoples to raise their standards of living through more efficient production and through freer interchange of the goods they produce. If they succeed in this, they will have laid a sound foundation for the political measures requisite to the maintenance of peace.

The International Bank is not intended to compete with private banks. On the contrary, it is designed to serve as a buttress to private finance. One of its stated functions is "to promote private foreign investment."

But private investors can hardly be expected to make foreign loans until they have some reasonable assurance that the borrowers are approaching a balanced economic position. Credit, if obtainable at all, would presumably be at short term and relatively high rates. This would not enable the carrying out of long-range tasks of reconstruction and development—the very tasks prerequisite to attainment of balanced economic positions. The Bank must serve during the transitional period following the war to achieve what private banking facilities would not for some time be in a position to achieve.

The Bank is empowered to extend credit in three principal ways. First, it may lend directly out of its own capital funds. Second, it may lend out of funds which it borrows through the issuance of its own obligations in the private capital markets of member countries. Third, it may guarantee, in whole or in part, loans made through the usual investment channels.

Direct loans are to be made by the Bank only when they cannot be floated through the normal channels at reasonable rates. So, it is clear, I think, that the Bank will serve not as a damper upon private investment but as a stimulus to it, expanding the investment sphere by acting as a stabilizer and guarantor of private loans and by promoting the conditions under which private investment can prove fruitful.

Speaking entirely for myself and not as an official exponent of the Bank's views, I should say that the Bank ought to make every effort, even in the early stages of its operation, to help borrowers obtain the funds they need from private sources. It can do this very effectively indeed either by underwriting the loans when that seems prudent or by participating in them. It is my observation—based, if I may say so, upon a rather considerable experience extending over three decades—that the mere readiness of a public institution like the International Bank to take up any unsold portion of a loan issue gives assurance and encouragement to private investors. And frequently, under such circumstances, they leave nothing for the public institution to take up.

The Bank, charged as it is with responsibility for promoting genuine programs of reconstruction and long-range development



of resources in borrowing countries, is very much concerned with the uses to which its loans are put. The funds of the Bank can have little real utility if they are applied merely to the repair of old and obsolescent machinery and the restoration of antiquated production processes.

The great economic need is for a radical modernization of industrial techniques. Only as modernization takes place can countries make their full contribution to the world's wealth and bring themselves into a position to buy—and pay for—the imports they require. And only thus, of course, can they bring themselves into a position to repay to the Bank what they have borrowed.

Increased world trade must go hand in hand with increased production resulting from increased efficiency. There can be no better means of raising living standards everywhere than the ready interchange among peoples of what each is able to produce most economically. And it is equally true that there can be no better basis for friendly relationships and mutual understanding among peoples than commerce of this sort.

I have said that the Bank is necessarily concerned with the uses to which its funds are put by borrowers. Permit me, if you will, to go back to an observation I made more than a quarter of a century ago in connection with the fostering of international investment after the First World War. I remarked in an address to the American Manufacturers Export Association at that time that "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." I think that this warning is no less pertinent and applicable today. The credit supplied by the International Bank must be credit that is put to work, credit that is employed to produce wealth.

In reviewing the applications to the International Bank for loans, I find a listing of programs requiring material, machinery and technical manpower, all of which it is assumed will be available if funds are available. But money alone, of itself, does not provide materials, machinery and technical manpower. It is merely one of the tools to that end.

This brings us to the question of the sources from which materials, machines and skilled technicians are available.

During the war this country mobilized its full resources of man and woman power for production. Every possible stimulus to production was used. While there were interruptions in production, they were not on a major scale. This total mobilization of natural resources, machinery, management and labor enabled the United States to lend its great strength to the Allied

cause. It was American production that supplied the tools of our armies and of the armies of our Allies.

The International Bank was created and organized on the assumption that America, even after the pressures of war, would maintain a high level of production. It was taken for granted that with our vast productive capacity the materials for world-wide reconstruction would be available if only the financial machinery for adequate loans were available. Our failure to produce these materials as rapidly as was expected has now created a bottleneck of serious proportions.

At this point, may I divert in a somewhat personal way to the subject of the Famine Emergency Committee of last spring. On February 12, in a meeting at the White House, I heard Governor Lehman and Secretary Anderson state that we were about to default on our actual commitments for wheat and fats under the UNRRA program. The result of this failure was projected in terms of starving tens of millions, and even hundreds of millions, of people throughout the world, while our own diet had increased by about 500 calories per capita daily over our prewar consumption. Some of us were profoundly shocked. We knew that if the American people realized what was happening they would insist upon constructive action. They would resent learning, months later, the dire consequences of a situation on which they had never been fully informed. To be sure, some statistics on the maldistribution of foodstuffs had been published, but the tragic results of our unconscious selfishness had never been fully brought home to the men, women and children of this country.

Out of this situation came the appointment of the Famine Emergency Committee. With the help of the Advertising Council, which sprang into action with remarkable rapidity and efficiency, a self-rationing program was presented to the people of our country. It was carried over the air on most of the major programs and many of the local programs as well. Commentators discussed it at length and frequently. Great quantities of advertising space in newspapers and magazines, paid for by the merchants and manufacturers of the country and many other groups and individuals, were devoted to the subject. Churches and schools cooperated generously. Mr. Hoover made a trip around the world to survey demands for wheat and fats in import countries and to increase the exports of producing countries. In short, every force that could be brought to bear upon the problem was mobilized.

As a result, starvation in many countries was averted. The point of this is that our people, learning the facts of the crisis, willingly shared their supplies with the nations threatened with starvation. They fought for the common welfare in peacetime as they had fought for it on the battlefield. Given information and



leadership, the people of the United States can always be relied upon to do the right thing freely and generously.

But there is a starvation now going on in the world concerning which leadership has been inarticulate. The starvation for the products of our fields in the form of food has been succeeded by a starvation no less extensive and dangerous to the welfare of humanity. I refer to the starvation for the products of our mines and factories. Stoppages of production here at home have reduced the supply of many of the materials needed to restore a minimum of economic life abroad. Lending money alone will not supply the products. This industrial starvation will remain acute as long as our production is restricted. Even the world's food supply has been curtailed by stoppages of our production of agricultural implements, fertilizers, coal, automobile trucks and other means of transportation and of electrical and mining machinery and many other things. In depriving other peoples of the tools they need for reconstruction, we are threatening world recovery and condemning vast numbers of human beings to serious deprivations.

I have no wish to weary you with figures. But a few of them, I think, may be useful by way of illustration. The national coal strike which took place in the spring of this year lasted for 58 working days. It resulted in the loss of 70 million tons of coal. And since then, local strikes here and there throughout the coal mines of the country have cost us in the neighborhood of 175,000 tons every week—coal that might have been available for production but was not.

Now, it seems, we are threatened with a fresh stoppage of work in the coal mines. Let us face the practical impact of it, if it should come. Coal production is running currently at the rate of about 12 million tons a week or 2 million tons a day. Every day of a national strike, therefore, would mean the loss of that amount.

And the loss would inevitably be felt, as you know, in every phase of the American productive system—in power plants, factories, railroads. At the end of the chain, of course, it would be felt by the peoples overseas awaiting hungrily for the products of our industries necessary to set their industries in motion. The maintenance of full production in this country requires every ton of coal that can be mined.

A look at the Federal Reserve Board's index of production reveals disastrous drops in manufacturing output resulting principally from work stoppages. The index for pig iron shows a drop from 100 in January to 48 in February; steel in the same months fell from 108 to 46; machinery from 217 to 188. When the General Motors strike took place last fall, the index of automobile production dropped suddenly from 137 in November to 95 in December.

The October report of the Civilian Production Administration discloses that copper, a key production metal, suffered grievously from strikes lasting through March, April and May of this year. Production fell off during that period from 70,000 tons a month to about 20,000 tons. Happily, it is now back at its earlier level.

I say emphatically that the crucial importance of continuous full production for our own welfare and for that of mankind the world over cannot be exaggerated.

We Americans who but recently showed our sympathy for the people of the world by sharing the products of our fields must now become aware that this economic starvation threatens the winning of the peace, the peace for which so many of our boys fought and died and for which so much treasure has been spent.

Although I cannot at this time prove it by statistics because statistics come only after events, I venture to say that, if we had not had many of these unnecessary stoppages of production, we could have helped the rest of the world by self-rationing for export of part of our industrial production and at the same time have had more of everything here at home.

Your organization is an important one. Political science is your center of interest. National and world stability is your objective. That stability is now threatened by a starvation for the materials with which to reconstruct the devastated areas and to develop the economically backward areas. Why should the students of political science wait, as they have too often in the past, to analyze these grim realities after the event? Why should you not make the immediate need of raising our industrial production your immediate research problem? The key is better labor-management relations. How are they to be obtained with a minimum of delay? Is this a problem for political scientists?

For our present disastrous labor relations I have no disposition to allocate the blame. But I do say this with every conviction that is within me—we must find a way of settling our labor disputes without the disastrous strikes which bring about world starvation in a broader sense than the mere withholding of food. And as to food itself, the demands upon us will be heavier the longer we lack ingenuity and the sense of responsibility to the rest of the world for the use of our powers to help our fellow men. This sense of responsibility we felt in full measure during the war. Let us feel it now in the same degree and make good the debt to our heroic dead.

To do so would be sound political science, sound human relations, sound religion and sound democracy. It would be the beginning the world over of a new faith in our ability to lead the way toward order, mutual confidence and peace. Given that surge of production here in our country, the International Bank can better play the accelerating role for which it was established.

