

Report of Commission II on the International Bank for Reconstruction and Development (21 July 1944)

Caption: On 21 July 1944, the second Commission created by the Bretton Woods (New Hampshire) Monetary Conference adopts a report relating to the International Bank for Reconstruction and Development (IBRD).

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Report of Commission II (International Bank for Reconstruction and Development) to the Executive Plenary Session (July 21, 1944)

Reporting Delegate: Georges Theunis, Belgium

MR. PRESIDENT:

I have the honor to report to the Conference on the work of Commission II, which was set up by the Conference at its plenary session on July 3 to study the proposals for the creation of a Bank for Reconstruction and Development.

The first meeting of Commission II was also held on July 3 and was mainly of a formal character, with the exception of an inspiring address by Lord Keynes and the appointment of an Agenda Committee, which, slightly enlarged, was to become the hard-working Drafting Committee. The Commission met again on July 11. Its chairman, Lord Keynes, proposed a method of work by which the best advantage could be taken of the accomplishment of Commission I while speedy progress was made on the delicate points with which the members of Commission II were confronted.

As in Commission I, the work was divided between four committees, dealing respectively with Purposes, Policies, and Capital of the Bank; Operations; Organization and Management; Form and Status. At the same time, several *ad hoc* subcommittees were created for the purpose of examining points which called for special study and discussion. To these subcommittees the following questions were referred: membership; subscription; rates of capital employable; flat rate of commission; relationship of international agencies; management; suspension and withdrawals; taxation.

Subcommittees — and amongst them the Subscription Committee and the Special Committee on Unsettled Problems — were entrusted with the task of solving the knottier problems. Most of these sub- and *ad hoc* committees were created directly by the Commission, in agreement with the chairman of the committees, and all of them were allowed to report directly to the Commission if it were thought advantageous. This change of procedure was instrumental in cutting down unnecessary delays. The Commission met nine times and the various committees and subcommittees held numerous meetings.

This afternoon, the Commission adopted the Articles of Agreement of the Bank for Reconstruction and Development, which are attached to the present report and which the Commission requested me to refer for approval to the Plenary Assembly of the Conference.

I must call your attention to the fact that the work of Commission II was simpler in some respects and more complicated in others than the work of Commission I. It was simpler because many of the questions relating to general organization, having already been very carefully studied in Commission I, it sufficed, in most cases, either to accept them as they were, or to adapt them to the particular nature of the problems submitted to Commission II. The work was more complicated because, unlike the Fund, the Bank had not been for a long time past under the scrutiny of international research. Years ago, the questions involving exchange stability were already widely discussed both in Europe and in America. Various solutions had been recommended, and procedures of a somewhat primitive and inadequate character had indeed been in operation between the two wars.

The creation of the Bank was an entirely new venture. Never, during the numerous international meetings which over a period of 25 years have studied all sorts of economic problems, was any thought given to an organization so considerable in its scope and so novel in its conception as that which has been the subject of your deliberations. So novel was it, that no adequate name could be found for it. In so far as we can talk of capital subscriptions, loans, guarantees, issue of bonds, the new financial institution may have some apparent claim to the name of Bank. But the type of shareholders, the nature of subscriptions, the exclusion of all deposits and of short-term loans, the non-profit basis, are quite foreign to the accepted nature of a Bank. However it was accidentally born with the name Bank, and Bank it remains, mainly because no satisfactory name could be found in the dictionary for this unprecedented institution.

Here is another example of our difficulties: The International Monetary Fund offered obvious advantages to its members in exchange for their subscriptions. But, to some people, the advantages offered by the Bank were not so obvious at first sight. Having regard to their economic structure, certain countries might justifiably feel that the Bank could not be of assistance to them and that they would not have to resort to such a source of credit. But here an idea comes into play, an idea, which I do not need to emphasize to you, Gentlemen, who have long been convinced of its real greatness, but which should be impressed on the mass of the people whom you represent. This idea is the idea of human solidarity.

All those who have given thought to the problems which arise every day in connection with the economic life of a country are aware of the economic interdependence of nations. This interdependence may not be immediately apparent. It is unquestionable, however, that a loan granted to one country from the resources or with the guarantee of the Bank will not be advantageous to that country alone. The loan will enable it to reconstruct its economy, destroyed by war, or inadequately developed. As a result, activity is fostered, needs and requirements are satisfied, purchasing power is increased, new markets are born, and, indirectly, by means of the general flow of international trade, all countries finally benefit by the improvement brought about in the particular country which has obtained a loan through the Bank. In this way, capital which is now in excess in certain countries will again be put to productive use and will find its reward not only in the rate of interest on remunerative investments, but also, indirectly, in the promotion of world prosperity which rich countries themselves need in order to maintain and develop their own well-being.

As I said before, some of the problems met with in drafting the regulations of the future Bank were of an entirely new character — much more so than for the Fund, the studies of which were started two years ago.

This is not meant to detract from the merit of our colleagues who concentrated their attention especially on the Monetary Fund and who, I repeat, have greatly facilitated our work. My only intention is to underline the considerable credit due to Commission II, its committees and subcommittees, which, within a limited period of time, have succeeded in overcoming the difficulties involved and in reaching an agreement on the principles which are to govern the activity of the Bank. This achievement would have been impossible without two distinct elements. The first is the brilliant chairmanship of Lord Keynes. Not only has he greatly contributed to the ideas contained in the Articles of Agreement of the Bank, but he also has kept the proceedings at a brisk pace which the delegates sportingly emulated. The other is the untiring and admirable work performed by the Secretariat under the orders of Dr. Kelchner, and by the secretaries of this Commission: Mr. Upgren, Mr. Smithies, and Miss Russell. A considerable number of reports, amendments, and other documents were drawn up, copied, and distributed with sufficient promptitude to permit the work to proceed uninterruptedly.

I should now like to call your attention to a few remarks relating more directly to the Bank. As for the purpose of the Bank, it should be noted that the Bank is established both for the reconstruction and for the development of the member countries, and these two objectives are to be pursued on a footing of equality.

On the other hand, the Bank aims at covering a field distinct from the Fund. As Mr. Rasminsky pointed out in his report to Commission I, “the Fund is not regarded, and should not be regarded, as an institution for the provision of long-term capital requirements”. The Fund has been created to provide members with an “opportunity to correct maladjustments in their balance of payments” and “to shorten the duration and lessen the degree” of such maladjustments.

On the contrary, when the Bank promotes or supplements private investments either by means of guarantees and participations in private loans or by providing funds out of its own resources, the aim is to provide capital on a long-term or medium-term basis. Precautionary measures, as you know, appear in various provisions of the Agreement to prevent such movements of capital from hampering the economy of the countries concerned.

Next, I turn to the prospective size of the actual subscription. The capital of the Bank is a huge sum and far exceeds anything the world has ever known in this field. The greater part, however, is in the form of a

guarantee fund which cannot be called up except over a period of years and the full amount of which we are entitled to hope will never be called up. Careful recommendations have been worked out regarding the operation of the Bank with a view to protecting its resources and its credit. The first payments provided for, though ample for the initial operations, are moderate enough and are within the capacity of all the subscribers.

In spite of the difficulties encountered, I have found at the Conference ground for comfort.

In 1927, I was taking part in an important economic conference in Geneva. A year of preparatory work and several weeks devoted to discussions were needed before it was possible to recommend to the 51 governments represented the economic policy which in the opinion of the Conference was indispensable to restore prosperity. Alas, those recommendations were never implemented! But during the 17 years that have elapsed since 1927, these ideas on economic policy have made good progress and now find a better response. Indeed, at Bretton Woods we have passed the stage of making recommendations of a more or less general nature; we are recommending action. This is evidenced by the important amounts which various countries are contemplating to subscribe and which bear witness to the frame of mind of the delegates at the end of our deliberations.

But don't let us stop with contemplation of the two milestones we have reached on the arduous road which humanity has to cover before reaching the peaceful prosperity to which we all aspire. Even if the Bank and the Fund succeed in their purposes to the full extent of the most favorable expectations, they cannot be sufficient to restore a prosperous world economy. I would go further and say that they could not be successful in a world whose economy remained chaotic in other respects. But they can be and should be the starting point of this restoration.

Before ending my remarks, I should like to pay tribute to President Roosevelt, to his right-hand man in financial matters, Mr. Morgenthau, and to the Government and the people of the United States of America for the initiative taken by this country in launching, with far-sighted vision, the far-reaching plan which inspired the Articles of Agreement of the Bank. A great deal of our appreciation should also go to Mr. Harry White, who was instrumental in giving shape to the plan.

In promoting the ideas of the Bank and of the Fund, and in calling this Monetary Conference, the Government of the United States of America has, on the common peace front of the United Nations, made a contribution which timely complements that of the glorious American armies on the war front. Allies on the battlefield, we must also do our part together in preparing a better world.

I have stressed the importance of the Fund and of the Bank in the material organization of tomorrow, but the moral element which would be expressed in the success of both organizations would be of paramount value. It would mean that before the war is over, men of good will, men coming from all parts of the world, men of different races and creeds, whose countries have different political systems, have agreed and have succeeded in collaborating in heretofore undreamed-of efforts at insuring a better and more secure future for the whole world. The repercussions of such an achievement will be tremendous.

The plans set up at Bretton Woods are not perfect. Even if they were, their forbidding technicalities and the novelty of their thought might be enough to arouse misapprehension. For many years, I have noticed that economic questions, and especially financial matters, are not properly understood by the masses. When you leave Bretton Woods, Gentlemen, your task will not be over. You who can bear witness to the sincerity of purpose which has prevailed at Bretton Woods can also dissipate false alarms, clear up possible misunderstandings, explain the necessary compromises that were made, and, by so doing, act in your respective countries as pioneers of a just and promising international cooperation.