

Statement by Lord Keynes on the proposed Bank for Reconstruction and Development (1944)

Caption: In 1944, at the close of the Bretton Woods (New Hampshire) monetary conference, John Maynard Keynes, renowned international economist and financial adviser to the British Treasury, gives a speech in which he emphasises the urgent need to set up an International Bank for Reconstruction and Development (IBRD).

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"I will not say that the establishment of the Bank for reconstruction and development is more important than the Monetary Fund but perhaps it is more urgent. U.N.R.R.A. will provide funds necessary for relief and rehabilitation in the days immediately following liberation but it will not provide finance for more permanent reconstruction and the restoration of industry and agriculture. To fill this gap is one of the main purposes of the Bank which we have been working at in Bretton Woods. Its other main purpose is the development of the less-developed areas of the world in the general interests of the standard of life, of conditions of labour, and the expanse of trade everywhere.

The capital which we are aiming at and which we hope eventually to attain is £2,500 million. I can say with confidence that the initial capital of the Bank will not fall short of two thousand million pounds. This is a vast amount in terms of international lending and should be adequate for all proper requirements for some time to come. The Bank will have some novel principles. In the early days after the war only a few countries and chiefly the United States will have the necessary surplus resources available to invest overseas. How then can the rest of us help and how can the Bank become a genuinely International Institution, whilst only the more fortunately-placed countries can find large sums for investment during those early days?

The proposal is that it is up to the rest of us to stand behind the credit of the devastated and undeveloped countries and take – each of us – our share in guaranteeing the lenders from ultimate loss. There are many careful provisions to safe-guard the guarantors from excessive loss, but the whole world will join together in a mutual credit insurance pool, as I would describe it, to shoulder risks which private investors might be unwilling to run with future prospects so uncertain and precarious. As a rule the Bank's loans will not take the form of free cash in the hands of the borrower, which he could use and squander as a free addition to his income, as was so often the case in the past. They will be tied to overseas expenditure – on specific projects, which have been carefully examined and approved. The term-specific project will be widely interpreted and any proper scheme for the reconstruction of industry in Liberated Europe or for fresh development will be eligible. The place of expenditure of the loans thus guaranteed will not be tied to the country in which the loans are raised, but will be available for purchases in any part of the world from the manufacturers best able to supply the demand. I can scarcely exaggerate the vast benefits which may flow to the world from this great scheme. Resources will be available to reconstruct the liberated areas. Buying power will be available for the output of manufacturers in every country physically capable of meeting the demand. A powerful means will be provided to assist the maintenance of equilibrium in the balance of payments between debtor and creditor countries. There has never been such a far-reaching proposal on so great a scale to provide employment in the present and increase productivity in the future. We have been working quietly away in the cool woods and mountains of New Hampshire and I doubt if the world yet understands how big a thing we are bringing to birth."