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INTERNATIONAL FINANCIAL PROBLEMS

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# Proposed United Nations Bank

## For Reconstruction and Development

FINANCE DEPARTMENT

Chamber of Commerce of the United States
Washington, D. C.
JUNE • 1944

THIS PAMPHLET is issued in response to requests for a review of provisions of and comments upon the proposed United Nations Bank.

It is one of a series upon international financial problems. The pamphlets thus far released are:

1. International Monetary Developments Between the First and Second World Wars.

2. World Currency Stabilization Proposals.

3. Proposed United Nations Bank for Reconstruction and Development.

The pamphlets were prepared by Arthur W. Crawford of the Chamber Staff.

FINANCE DEPARTMENT
John J. O'Connor, *Manager*

# Proposed United Nations Bank
## *For Reconstruction and Development*

AMERICAN CAPITAL will be in demand after the war in countries throughout the world. Funds will be desired for rehabilitation, reconstruction and development in war-stricken nations and for the building up of trade and industry in other regions. Directly or indirectly, foreign investments may stimulate American export trade and domestic industry.

Issues of great importance for the post-war period are raised in the proposal for the establishment of a United Nations Bank for Reconstruction and Development.

The proposed Bank, a tentative suggestion of experts of our government, would provide long-term capital and also guarantee private loans. It would be a companion agency to the proposed International Monetary Fund, which is intended to promote a stabilization of currencies and provide means for adjustment of the international balance of payments.

A preliminary draft outline of the Bank proposal, sent to the Finance Ministers of the United and Associated Nations by Secretary of the Treasury Morgenthau in November 1943, following his announcement of guiding principles a month earlier, has been the subject of conferences which have paralleled those on the plan for monetary stabilization.

Good progress in discussions on the Bank proposal was claimed by Secretary Morgenthau at the time of his announcement to Congressional committees in April 1944 of an agreement by technical experts of more than 30 nations on basic principles for an International Monetary Fund. Mr. Morgenthau said that "those with whom we have discussed the problem of reviving post-war international investment regard the Bank as essential to the expansion of international trade and the maintenance of a high level of business activity."

Details of the plan for a Bank, comments upon it and alternative suggestions from various sources are presented in this pamphlet under nine headings as follows:

I. Provisions of United Nations Bank Proposal.
II. Favorable Comments.

**III.** Criticisms.
**IV.** Position of American Bankers Association.
**V.** Plan of Representative Dewey for Central Reconstruction Fund.
**VI.** Other Suggestions.
**VII.** Inter-American Bank Plan.
**VIII.** Legislative Status of United Nations Bank.
**IX.** Need of Capital for Reconstruction and Development.

## I. Provisions of United Nations Bank Proposal

**Broad Objectives:** The preliminary draft outline of the plan for a United Nations Bank lists the broad objectives in a 4-point preamble. Text of this preamble follows:

> **1.** The provision of foreign capital will be one of the important international economic and financial problems of the post-war period. Many countries will require capital for reconstruction, for the conversion of their industries to peacetime needs, and for the development of their productive resources. Others will find that foreign investment provides a growing market for their goods. Sound international investment will be of immense benefit to the lending as well as to the borrowing countries.
>
> **2.** Even in the early post-war years it may be hoped that a considerable part of the capital for international investment will be provided through private investment channels. It will undoubtedly be necessary, however, to encourage private investment by assuming some of the risks that will be especially large immediately after the war and to supplement private investment with capital provided through international cooperation. The United Nations Bank for Reconstruction and Development is proposed as a permanent institution to encourage and facilitate international investment for sound and productive purposes.
>
> **3.** The Bank is intended to cooperate with private financial agencies in making available long-term capital for reconstruction and development and to supplement such investment where private agencies are unable to meet fully the legitimate needs for capital for productive purposes. The Bank would make no loans or investments that could be secured from private investors on reasonable terms. The principal function of the Bank would be to guarantee and to participate in loans made by private investment agencies and to lend directly from its own resources whatever additional capital may be needed. The facilities of the Bank would be available only for approved governmental and business projects which have been guaranteed by national governments. Operating under these principles, the Bank should be a powerful factor in encouraging the provision of private capital for international investment.
>
> **4.** By making certain that capital is available for productive uses on reasonable terms, the Bank can make an important contribution to enduring peace and prosperity. With adequate capital, countries affected by the war can move steadily toward reconstruction, and the newer countries can undertake the economic development of which they are capable. International investment for these purposes can be a significant factor in expanding trade and in helping to maintain a high level of business activity throughout the world.



**Specific Purposes:** In the preliminary draft outline, the preamble is followed by a 5-point statement of the purposes of the bank as follows:

> **1.** To assist in the reconstruction and development of member countries by cooperating with private financial agencies in the provision of capital for sound and constructive international investment.
>
> **2.** To provide capital for reconstruction and development, under conditions which will amply safeguard the Bank's funds, when private financial agencies are unable to supply the capital needed for such purposes on reasonable terms consistent with the borrowing policies of member countries.
>
> **3.** To facilitate a rapid and smooth transition from a wartime economy to a peacetime economy by increasing the flow of international investment, and thus to help avoid serious disruption of the economic life of member countries.
>
> **4.** To assist in raising the productivity of member countries by helping to make available through international collaboration long-term capital for the sound development of productive resources.
>
> **5.** To promote the long-range balanced growth of international trade among member countries.

**Capital:** Each government, which is a member of the proposed International Monetary Fund, would subscribe to a minimum number of the Bank's shares to be determined by a formula taking into account such relevant data as national income and international trade. The total authorized capital would be about $10,000,000,000. Under a tentative formula the subscription of the United States would be about $3,500,000,000; the United Kingdom, about $1,000,000,000; and Russia, a trifle less than the British.

The initial payment of each member country would be 20 per cent of its subscription, not to exceed 20 per cent of which would be in gold and the remainder in local currency. The proportions to be paid in gold and local currency would be graduated according to a schedule which would take into account the adequacy of the gold and free foreign exchange holdings of each country. The initial payment of the United States would be about $700,000,000, $140,000,000 of it in gold.

A substantial part of the subscribed capital would be reserved in the form of unpaid subscriptions as a surety fund for the securities guaranteed or issued by the Bank.

Each member country would agree to repurchase each year part of its currency held by the Bank, amounting to not more than 2 per cent of its paid subscription, paying for it with gold.

**Powers and Operations:** The Bank would have authority to guarantee, participate in, or make loans to any member country and through the government of such country to any of its political subdivisions or to business or industrial enterprises therein under prescribed conditions. Payment of interest and principal would be fully guaranteed by the national government. The loan would be available only if the borrower were unable otherwise to secure funds under reasonable conditions. A report would be required from a competent committee to the effect that the loan would serve directly or indirectly to raise the productivity of the borrowing country and that the prospects were favorable to the servicing of the loan. The Bank would make arrangements to assure the use of the proceeds of the loan for the purposes for which it was approved. The Bank would guarantee, participate in, or make loans only at reasonable rates of interest, with a schedule of repayments appropriate to the character of the project and the international position of the country of the borrower.

The Bank might participate in loans placed through the usual investment channels, a higher rate of interest being permissible on such loans than on those guaranteed.

The Bank might encourage and facilitate international investment in equity securities by securing the guarantee by governments of conversion into foreign exchange of the current earnings of such foreign-held investments. In promoting this objective the Bank might also participate in such investments, but



its aggregate participation in such equity securities could not exceed 10 per cent of its paid-in capital.

The Bank might publicly offer any securities it had previously acquired. To facilitate the sale of such securities, the Bank might, in its discretion, guarantee them.

The Bank would be prohibited from making any loans or investments that could be placed through the usual private investment channels on reasonable terms.

The Bank could impose no conditions upon a loan as to the particular member country in which the proceeds should be spent, except that they should not be used in a non-member country without its approval.

In making loans the Bank would agree to supply necessary foreign exchange in currencies of the countries in which proceeds of the loan were to be spent and would require local currency needs, except in special circumstances, to be financed locally without its assistance. Where a development program would give rise to an increased need for foreign exchange, for purposes not directly needed for such program yet resulting from it, the Bank would provide an appropriate part of the funds in gold or foreign exchange.

Payment of interest and principal of loans would be in currencies acceptable to the Bank or in gold. In the event of an acute exchange stringency the Bank might accept local currency for periods not exceeding three years. The Bank would arrange with the borrowing country for the repurchase of such local currency over a period of years. Payments of interest and principal, whether in member currencies or gold, would be required to be equivalent to the gold value of the loan and contractual interest.

The Bank might guarantee, participate in, or make loans to international governmental agencies for objectives consonant with its purposes, provided that at least one-half of the participants in the international agencies were members.

In considering any application to guarantee, participate in, or make a loan to a member country, the Bank would give due regard to the effect of such a loan on business and financial conditions in the country in which the loan was to be spent and would accordingly obtain the consent of the country affected.

At the request of the countries in which portions of the loan were spent, the Bank would repurchase for gold or needed foreign exchange a part of the local currency proceeds.

With the approval of the representatives of the member countries involved, the Bank might engage in the following operations:

> **(a)** Issue, buy or sell, pledge or discount any of its own securities and obligations, or securities and obligations taken from its portfolio, or securities which it had guaranteed.
>
> **(b)** Borrow from member governments, fiscal agencies, central banks, stabilization funds, private financial institutions in member countries, or from international financial agencies.
>
> **(c)** Buy or sell foreign exchange, after consultation with the International Monetary Fund, where such transactions were necessary in connection with its operations.

The preliminary draft outline contains no limitations on the credit operations of the Bank such as with respect to the issuance of its own securities or other borrowings or the amount of its loans.

Except as otherwise indicated, the Bank would deal only with or through the governments of member countries, their central banks, stabilization funds and fiscal agencies and the International Monetary Fund and other financial agencies owned predominantly by member governments. The Bank might, nevertheless, with the approval of the representative of the country concerned, deal with the public or institutions of member countries in the Bank's own securities or those guaranteed by it.

If any country were suspended from membership, all member governments would agree not to extend financial assistance to such country.

The Bank and its officers would scrupulously avoid interference in the political affairs of any member country.

The Bank would not be influenced in its decisions with respect to applications for a loan by the political character of the government of the country requesting it.

**Management:** The administration of the Bank would be vested in a Board of Directors composed of one director and one alternate appointed by each government, service of directors being for a period of three years. Each member country would be entitled to cast 1,000 votes plus one vote for each share of stock held. Par value of each share would be $100,000. If the United States were to hold $3,500,000,000 of the $10,000,000,000 total



capital, it would have 35,000 shares and 36,000 votes. No country would be allowed to cast more than 25 per cent of the aggregate votes, which would mean that while the United States might have a 35 per cent interest, it would not have a proportionate voting power. Except where otherwise provided, decisions of the Board would be by a simple majority of the votes cast.

The Board of Directors would select a President of the Bank, who would be the chief of the operating staff, and one or more vice presidents, all for terms of four years. There would be an Executive Committee of not more than nine members and an Advisory Council of seven members. Power to guarantee, participate in and make loans in amounts fixed by the Board might be delegated to the Executive Committee by a three-fourths vote.

Any member country failing to meet its financial obligations to the Bank might be suspended and at the end of one year dropped automatically unless restored to good standing. If a member country withdrew or were dropped, its stock would be repurchased at the price paid, subject to deduction for its proportionate share of any loss.

Any yearly net profits would be distributed in proportion to shares held, except that one-fourth of the profits would be applied to surplus until it equaled 20 per cent of the subscribed capital.

## II. Favorable Comments

**Secretary Morgenthau:** In a foreword accompanying the preliminary draft outline sent to the Finance Ministers of the United Nations and countries associated with them, Secretary of the Treasury Morgenthau gave general endorsement to the idea of a world bank without committing himself or the Treasury Department to the specific details.

Excerpts from Mr. Morgenthau's statement follow:

> The primary aim of such agency should be to encourage private capital to go abroad for productive investment by sharing the risks of private investors and by participating with private investors in large ventures. The provision of some of the capital needed for reconstruction and development, where private capital is unable to take the risk, is intended to remain secondary in the operations of such an agency. It should, of course, scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms. It should perform only that part of the task which private capital cannot do alone.

The need for foreign capital will be so great and the provision of adequate capital so important that it would be extremely shortsighted to neglect this urgent international problem. If private capital should suffice there would then be little for an international agency to do, beyond encouraging private investment. If, however, private capital were to prove unable fully to meet the needs, then such an international agency would be able to fill the breach until private capital again flowed freely and the demand for foreign capital throughout the world became less urgent. . . .

A United Nations Bank for Reconstruction and Development is proposed as another international agency needed to help attain and maintain world-wide prosperity after the war. It is designed as a companion agency to an International Stabilization Fund. Each agency could stand and function effectively without the other; but the establishment of such a Bank would make easier the task of an International Stabilization Fund, and the successful operation of such a Fund would enhance the effectiveness of the Bank.

**Alvin H. Hansen:** In an article in the January 1944 issue of *Foreign Affairs,* Alvin H. Hansen, professor of economics at Harvard University, advocated American participation in a world bank on the order of the Treasury proposal as a means of contributing to economic benefits which cannot be computed in dollars and cents. He said in part:

> The question may well be asked why there is any need for anything further than the insurance of private investment funds. The answer is that loans and investment by the Bank are necessary because many projects which deserve development cannot in fact earn sufficient returns to induce private investment. It does not follow that such development projects are economically unsound.
>
> In the first place, it may simply mean that certain basic development projects requiring a vast amount of fixed capital, such as electric power, river valley development, port facilities, and transportation facilities of different kinds, cannot be undertaken unless funds can be obtained at very low rates of interest. The Bank could sell guaranteed bonds in the private capital markets at lower rates of interest than would prevail for private or foreign country issues. Loans and investments which are feasible at a low rate of interest, therefore, could be financed by the device of guaranteed bonds of the International Development and Investment Bank.
>
> In addition, however, I believe it is important to recognize—and I must emphasize that I am stating merely my own personal views—that many basic development projects are profitable and thoroughly sound economically, viewed from the standpoint of their effect upon the economy as a whole, even though they cannot return the principal plus the market rate of interest. They may even be sound should they fail to return any interest or the whole of the initial principal. . . .
>
> In the domestic sphere, public outlays need to be made in the area of urban re-development, river valley development, and transportation so that adquate new private investment outlets may be opened up. International investment outlets of a similar basic character would constitute important supplements to these internal development programs.



## III. Criticisms

**Benjamin M. Anderson:** Emphatic criticism of the Treasury's proposal for a United Nations Bank has come from Benjamin M. Anderson, professor of economics at the University of California at Los Angeles, and former economist for the Chase National Bank of New York, who also is a vigorous critic of the proposed International Monetary Fund.

In an article in the *Commercial and Financial Chronicle,* New York, on December 16, 1943, Mr. Anderson said:

> In the first place, we must speedily pull up, in the interests of our national solvency, from using billions of dollars of money borrowed by the Treasury from the banks. Presumably our Treasury could put 3-1/3 billions of dollars into such a fund in the next few years, but where the other 6-2/3 billions would come from is highly problematical. How much spare cash will England have in the next few years to put into such a fund, internationally valid cash, taking into account her own blocked balances?
>
> But, second, to put the thing in the proper perspective, how can the stricken countries of Europe repay gigantic loans made by private agencies, supplemented and endorsed by the modest ten billions of the world investment bank? If we are to make loans to Europe, they must be good loans. We must not deluge them with funds for a time, then cease to lend them, and then see them default upon what we have lent. They must repay borrowings made by their governments (a) by creating fiscal surpluses, excess of taxation over government expenditures, which fiscal surpluses will exist in the form of domestic currencies, and (b) by transforming these fiscal surpluses into foreign exchange by giving their foreign creditors more goods and services than they receive from them. They must pay with hams, with cheese, with bottles of wine, with optical instruments, with bolts of cloth, with widely diversified manufactures of all kinds, with fine artistic products, with shipping services, with the entertainment of

tourists, and the like, in amounts exceeding their imports of goods and services.

When the matter is put in these terms, it is quite clear that loans of tens of millions, or at most two or three hundred millions look much more reasonable than loans of many billions. The small loans, moreover, made under proper conditions with necessary foreign supervision, will restore their currencies, restore their finances, and put them in a position to take care of themselves. . . .

There are many reasons why private capital rather than government funds should do the work as far as possible. One of them is that if a government insists upon financial reforms on the part of another government a diplomatic issue is created which may be difficult. But if investment bankers are dealing with a foreign government which needs to borrow here, the problem is very different. The investment banker is not lending his own money. He is advising the foreign government as to the conditions under which American investors will take the foreign loan. He does not have to make demands. It is sufficient for him to say with great courtesy that he fears American investors would not be interested in the loan unless such and such things are done. In considering the uses to which the borrowing country should put the proceeds of the loan, moreover, the bankers would have a far more realistic view than would the government.

The American investment market is at present gravely handicapped with respect to foreign loans by certain legislation, including the Johnson Act and some rather humiliating provisions of the Securities legislation. There must be very important legislative changes before American private capital can act adequately, in either the foreign or the domestic field. There ought to be close cooperation between private investment bankers and the government in the placing of foreign loans in the United States. The government should have the definite power to veto such loans—and indeed the investment banking community ought to welcome such a power on the part of the government for its own protection.

I do not feel justified at the present time in proposing a definite demarcation of the limits between private and government lending to Europe, when there is so much uncertainty as to what Europe will look like when the war is over. I do believe that we should do it privately as far as possible. I think that Germany, and perhaps Italy, must be dealt with by the Government itself, if they are to get outside financial help in the early post-war period.

**Wilbert Ward:** In an article in the January 1944 issue of the *Burroughs Clearing House*, Wilbert Ward, vice president of the National City Bank of New York and president of the Bankers Association for Foreign Trade, dealt with the potential role



of commercial banks and the government in post-war overseas trade. With reference to the proposal for a United Nations Bank, he said in part:

The memorandum issued by the Secretary of the Treasury fully recognizes the part that industry, banks and private financial agencies will play in supplying the short-term financial needs of our post-war foreign trade, and acknowledges the part that private enterprise will play in the resumption of long-term international investments, particularly in the form of establishment of foreign branch plants and the acquisition of shares in established foreign enterprises. It conceives, however, that the need for the investment of productive capital in undeveloped and capital-needy countries will outrun these sources; and proposes a world Bank to make available capital that would not otherwise be currently employed for productive purposes. This proposal is supported by the statement that it would be an unwise policy to spend hundreds of billions for war, but to balk at investing a few billions to assure peace and prosperity.

It is clear that improvement in the standard of living of many parts of the world is held back by lack of capital with which to provide machinery and equipment to multiply the fruits of man's labor. It has already been pointed out that a flow of American, British, and other capital, will go to all parts of the world if conditions are made attractive, but that there are many considerations which make it preferable that this flow of capital should take the form of real investment rather than of loans.

Is it not questionable whether it is the function of a bank to participate in this flow of investment capital abroad unless the proceeds of its loans are to be used for productive purposes that appear calculated to augment the supply of foreign exchange of the borrowing countries by an amount sufficient to retire the loans within their terms?

And, assuming that despite the extent to which private capital, given a favoring atmosphere, will be made available, some form of government credit may be desirable for both economic and political reasons—is it not possible that this need might be met by enlarging the scope of our Export-Import Bank?

What is the role of government in our post-war overseas trade? What can it do better than put its own house in order? Our export trade is inexorably hinged to our imports, and their value and volume are closely related, in turn, to our national income and our business activity. Our foreign trade is thus primarily a domestic problem. What we will have ahead in foreign trade, depends upon what is ahead at home. If we can produce more domestic goods; keep our men at work; increase our national income; decrease our government debts and increase the proportion of that income which may remain in the hands of the man who earns it, so that we can think in terms of foreign goods and foreign travel, we shall have made the largest possible progress toward the retention and development of our foreign trade.

There is nothing the matter with world trade which a reasonable period of political tranquillity throughout the world would not cure; and our best contribution to it would be to set the world an example of a sound domestic economy.

## IV. Position of American Bankers Association

THE ANNUAL MEETING of the American Bankers Association in September 1943 was held prior to the announcement of the Treasury's plan for a United Nations Bank. A resolution adopted at the meeting took cognizance of the need for encouragement of international capital investment for rehabilitation and development. The report of the Economic Policy Commission contained a section on the prospective needs of foreign countries for capital, in which a warning was sounded against excessive government lending.

An excerpt from the Economic Policy Commission's report follows:

> Enterprise is held back in many parts of the world by lack of funds. The record makes it clear that improvement in the standard of living has taken place where and when capital in the form of machinery and equipment, multiplies the fruits of man's labors. But—and here is the great question mark—capital to be productive must be wisely used, and investment calls for an investor as well as an opportunity for investment.
>
> The hasty answer that many are making today —"let the government do it"—needs consideration and analysis. There is grave doubt whether the American people after this war, saddled with a huge debt, will be ready to approve government lending of large sums of money in various parts of the world to improve backward areas.
>
> Thus we should examine also the private resources available for such use. Despite all the uncertainties of the period between wars a very substantial amount of trade has been financed privately. British and American banks have been prepared to finance essential trade movements. Such short-term credit has been freely available for the needs of genuine trade where the buyer of the goods could pay when the goods reached his hands. The banks have made losses as well as profits and have learned "how not to" as well as "how to." This kind of short-term credit will continue to be available promptly and in ample amounts.
>
> Another kind of funds has also been available in fair amounts. American and other business concerns, even during this difficult period have put substantial amounts of capital into foreign countries where the opportunity was promising and where they could stay with their undertakings and see that the capital was productively used. If the steps outlined previously in this report are taken more funds of this sort will be available.
>
> There are dangers that attend the flow of business funds abroad that arise from deep-seated political reactions. A powerful foreign interest in any country is a natural target for the politician who finds a popular response to the cry that the foreign corporation is exploiting the country. The consequences are discriminatory taxes and regulations and restrictions as to who can be employed and how, how much profits can be exported, etc., etc. Occasionally the political feeling goes to the point of expropriation as in the case of the oil companies in Mexico. Such treatment does not encourage foreign investment. On the other side, corporations have at times obtained special favors and a privileged status which in the long run is bound to arouse hostility.
>
> The net of it is that a much larger flow of American, British, and other capital will go to all parts of the world if conditions are made attractive. American business is prepared to go with its capital, to provide know-how as well as funds, and as fully as possible to work with the people of other countries. One method of financing that has been notably successful in certain instances is the joint ownership method, where an important share of the capital is raised locally. . . .
>
> Given a favoring atmosphere, private capital will be ready to do much of the work which needs to be done. We should not, however, dismiss wholly the need for some use of government credit. There will be situations in some countries where the conditions cannot be made wholly favorable for private capital and where funds for reconstruction or construction are badly needed and likely to be used wisely. Then some form of government credit may be desirable for both economic and political reasons. One pattern for such loans might be the loans jointly guaranteed under the League of Nations after the last war. The experience of the Export-Import Bank illustrates another method of meeting this situation. That Bank has made commitments since the start of operations in February, 1934 to June 1, 1943 amounting to $1,143,000,000; total disbursements have been $396,000,000 of which $205,000,000 have been repaid. The bulk of these commitments and disbursements have been related to inter-American trade, and most loans have been for self-liquidating projects. In most cases private funds have been used under the guaranty of the Export-Import Bank and available banking facilities have been utilized. Its loans have been made on the whole sparingly and carefully and with every effort to strike a proper bargain. Utilized in this way modest amounts of government credit may be a valuable supplement to private investment. The danger to be guarded against is that excessive government lending will

drive out the private enterprise which is the best hope for continuing progress.

But whether the loans are government loans or private loans they should be good loans, with reasonable promise of repayment; and not too much. If these conditions are fulfilled a good deal of private credit will be found available. There is no use making bad loans; such loans benefit no one.

## V. Plan of Representative Dewey for Central Reconstruction Fund

A PLAN FOR American participation in reconstruction loans through joint action with other nations on separate projects has been offered by Representative Charles S. Dewey of Illinois, Assistant Secretary of the Treasury from 1924 to 1927 and financial adviser to the Polish Government from 1928 to 1930. His plan, embodied in H. J. Res. 226, was the subject of hearings before the House Committee on Foreign Affairs in April and May 1944. It has the endorsement of Benjamin M. Anderson. Those favoring it are opposed to the Treasury plans for both monetary stabilization and world credits.

The Dewey proposal is for creation of a revolving fund account, consisting initially of $500,000,000. Amounts from the fund could be used for participation in joint account with any other government or governments to the extent of not more than 50 per cent of the total cost of any single risk. American individuals and corporations also could be brought into the financing. The purposes would be the promotion of the economic welfare of any nation through (1) extensions of short-term and intermediate credit for financing seasonal operations, or support of currencies when under speculative or economic pressure, and (2) extensions of long-term reconstruction or wealth-developing credits. Loans would be made only if the general purpose of the extension of credit was for sound economic objectives and was subject to supervision. With respect to such private funds as might be loaned under this plan to countries which are World War I debtors to the United States, the Johnson Act prohibiting such loans would be nullified.

The Board of Governors of the fund would be composed of a chairman appointed by the President and confirmed by the Senate, and two representatives each of the State Department,



Treasury Department, Reconstruction Finance Corporation, Board of Governors of the Federal Reserve System, the Senate and the House of Representatives.

**Charles S. Dewey:** In explaining his proposal to the House Committee on Foreign Affairs on December 17, 1943, during hearings on the United Nations Relief and Rehabilitation Administration bill, Representative Dewey said in part:

> The operation by joint account in financing various projects in the United States has been well known for many years. It is well understood by all financial people. It only means this: In the construction of a large new undertaking, be it a railroad, a public utility, or be whatever it may be, the owners or proprietors of the undertaking generally seek some financial house to obtain the credit or the cash necessary to construct the undertaking, and that financial house makes a complete study. Then it goes to other financial houses throughout the country and presents its study and says, "Would you like to enter into this project joint account with us?" Now, there is no requirement upon any financial house to enter, but if the project is good and sound they are glad to participate. They participate on the same basis as the originator of the project. They, in fact, may offer suggestions which they think will be beneficial, and if so, they are accepted. But they go along in joint account, each one taking that share of the liability that they feel capable of support and as their interests lie.
>
> Now, that is what I have done in this central reconstruction fund. Now this fund will be administered by a board of directors, and they, like the financial houses that I mentioned, will get in touch with similar fiscal agents of treasury departments or of central banks of any other nation. Let us suppose that we take, for example, Greece. Greece might be one of the first countries to be entirely evacuated. I do not know who would be the manager of the situation. It might be Russia, it might be England. In fact, it might be Greece itself that would set forward a plan for rehabilitation and reconstruction of its natural resources and wealth-producing resources, and it would present such a plan to the United Nations. This fund would be represented by a representative who would sit with the Russian representative, the British representative, and possibly the Turks, who are close neighbors and might care to come in and they would sit down and discuss this particular project. They would talk it all over. They would decide which one of the various participants would be most benefited, and naturally the one to be most benefited, if they had resources to carry on, would probably take the greater portion of the risk. . . .
>
> This offers no guaranty of private loans such as is contained in the Treasury long-term credit bank proposal. I am completely

opposed to the theory of the United States Government guaranteeing private ventures.

In a subsequent statement to the same committee on April 25, 1944, when attention was given directly to his own bill, Representative Dewey said:

> I think we must have some means of world stabilization; we must have some means of world cooperation, but I have not been particularly impressed by the academic approach that has so far been had. I am not particularly impressed by an international conference of some 30 nations, which would sit together and discuss these plans. . . .
>
> This setting up of a great central fund leaves out so many practical points of view. What will be the motives and ideology of all the various countries that we will be asked to help later on? Are they going to be financially sound? Are they going to wish to balance their budgets, or are they going to wish to have an inflationary policy? Then, again, will this be a sort of international Wall Street, having a small group of men, directors of the great international organization that will tell the countries of the world less powerful than themselves what they will do? They forget that these countries have their national pride and people do best when guided by their own self-interest and not by the demands of outsiders. Therefore, I feel, in a way, these central bodies, central funds, which are set up to coerce and drive other countries along the right lines are not as likely to be successful as if they go to the governments of these countries themselves and work with them in establishing sound financial and economic ideas within the country and aid them to put them into effect and then let those countries grow on a sound foundation. It is only by doing that that you can have a sound currency and sound economic future of the country.

**Harry D. White:** The Treasury Department's position on the Dewey proposal was stated to the House Committee on Foreign Affairs by Harry D. White, Director of Monetary Research, on May 16, 1944. While approving its purposes, Mr. White asserted that the resolution fails to provide for coordinated and efficient participation by the United States in the solution of post-war international monetary and financial problems. Mr. White insisted that the plan offered nothing with respect to stabilization of currencies which could not be accomplished through the present Exchange Stabilization Fund and relatively little with respect to international credits which could not be handled through the Export-Import Bank. By broadening the powers of the Export-Import Bank slightly, Mr. White said that it



would be in a position to accomplish more than the Dewey proposal could and without any duplication of agencies.

Mr. White said in part:

> Currency stabilization after the war is not a problem of dealing with isolated cases involving a few countries. The present Exchange Stabilization Fund is adequately equipped for handling such cases on a bilateral basis. But we are faced with the danger of wide-spread instability of currencies after the war. Bilateral arrangements alone cannot successfully cope with world monetary stability. Such a situation can be dealt with only through international cooperation. . . .
>
> The problems of post-war international investment cannot be solved merely by the provision of funds by this government. The revival of the free flow of private capital for international investment is an international problem. All countries share in the benefits of increased production and increased trade that result from productive investment. It is only proper that all countries should share in the risks. . . .
>
> Virtually all that this resolution provides can be done with existing facilities by agencies already in operation. But the stabilization of currencies and the revival of international investment cannot be brought about in this way. These problems are world-wide in character and they can be solved only through international cooperation. This resolution does not begin to meet these problems.

## VI. Other Suggestions

**B. H. Beckhart:** The hearings on the Dewey plan brought out other suggestions for handling the credit needs of foreign nations in the post-war period without creation of international agencies with the powers proposed by the Treasury experts. Incorporation of the Dewey scheme in a somewhat broader plan was proposed by B. H. Beckhart, professor of banking at Columbia University and director of research for the Chase National Bank, on April 27, 1944.

Mr. Beckhart offered six principles to guide the development of our international financial and trade policies as follows:

> **1.** In extending aid to foreign nations we should distinguish very carefully between gifts and loans, between the financial aid which we extend to relieve human suffering and distress and for which we do not expect repayment, and the financial aid which we extend for economically productive purposes and for which we expect repayment. Nations occupied by the Axis powers will

stand in desperate need of food and clothing. These needs we should meet to the utmost of our ability and without thought of repayment.

**2.** Post-war loans, as opposed to relief grants, should be extended for definite projects of economic merit, or in the words of Congressman Dewey's resolution, for "sound economic objectives". The terms of each credit extension should be "tailored" to fit particular borrowing needs. Careful consideration should be given to the credit-worthiness of the borrowing country.

**3.** Preference should be given to loans, the proceeds of which will be so utilized as to increase the export ability of the borrowing nation. If borrowing needs associated with purely domestic requirements are financed through external loans, a heavy burden will be placed upon a nation's balance of payments without at the same time enhancing its ability to export goods and thus to repay its external debt.

**4.** In the extension of financial aid, the funds loaned should be similar in character to the funds required. The mistake committed in the decade of the twenties of using short-term funds to finance long-term needs should not be repeated. Short-term funds should be used solely to finance short-term requirements and long-term credit needs should be met from investment funds.

**5.** The United States should stand ready to grant financial aid only if it is confident that borrowing nations at the earliest practicable moment will remove existing controls over import and export trade and foreign exchange transactions, and that they will not use such controls as instruments of national policy.

**6.** Credits should not be extended unless the United States is willing to absorb the amount of imports necessary to enable foreign debtors to meet interest and amortization charges on their indebtedness.

In proposing specific methods of providing credits to other countries, Mr. Beckhart said:

In general, post-war credits will be extended for the following four major purposes: (1) trade finance; (2) currency stabilization; (3) economic rehabilitation; (4) economic development. In each instance the funds required will differ as to length of life and as to the private or public character of the institution meeting the need.

Trade credits of a short-term self-liquidating character can and should be supplied by commercial banks. . . .

The second type of demand for funds arises in connection with currency stabilization. . . .

Although the problem of currency stabilization is fundamentally an internal one and one which must be solved by the adoption of appropriate internal measures, stabilization credits in certain instances can prove helpful. Such credits are of two types: short-term credits required for seasonal or temporary emergency needs, and long-term credits required for the purpose of providing gold and foreign exchange reserves.

The first type of stabilization credit can best be granted by an international central bank, i. e., by an institution similar to the Bank for International Settlements, or by the Bank for International Settlements itself operating under a revised charter. . . .

The second type of stabilization credit is that extended for a long period of time to provide the borrowing nation with gold or exchange reserves. Such a credit is exemplified in the Dawes loan of 800 million gold marks or about 190 million dollars, granted to Germany in 1924 to provide gold reserves for the new central bank, to contribute towards the establishment of a sound currency, and to prevent a complete suspension of payments to creditor nations during the period of economic rehabilitation.

Experience with stabilization credits after this war will probably be similar to that after the last war. Not all nations will need to borrow to secure currency reserves. Many will possess a sufficient supply of gold and dollar exchange. Nations which stand in need of long-term stabilization credits will doubtless wish to obtain them in this country. Gold will probably not be available elsewhere, and the dollar may be the only important currency free of foreign exchange controls. If private funds are not available for such loans, the United States Government should doubtless assume the responsibility of providing the requisite funds. By doing so, this country can stimulate international trade of a multilateral character and promote world recovery.

In order to facilitate the granting of long-term stabilization credits by our government in the difficult period of transition from a war to a peace economy, I propose that a Foreign Credit Administration be established, operating under the direction of a Board of Governors chosen in the manner set forth by Congressman Dewey in H. J. Res. 226. The powers and duties assigned to this board, however, would be somewhat broader than those delegated in Congressman Dewey's proposal. Among other duties, this body would have the responsibility of receiving and passing upon applications for long-term stabilization loans to be granted by our government, and, if favorable action were taken, of recommending to Congress that the necessary appropriation bills be introduced. . . .

The third type of credit demand has to do with the loans that will be required for purposes of economic rehabilitation, i. e., to assist nations in building up inventories of raw materials and in repairing docks, factories, public utilities, railroads, etc. Such credits are closely related to relief activities inasmuch as they enable nations to resume their normal economic life and to become self-supporting. It is to this problem that Congressman Dewey has in particular addressed his proposal. . . .

The fourth and final type of credit need will arise from the desire of nations to further their economic development, i. e., to expand capital equipment. The greater part of such expansion must be financed from internal sources, for much of it is of such a character that it will not increase the export balance and, in consequence, will not facilitate the repayment of funds borrowed abroad.

In certain instances, nations, by using their own gold holdings and foreign exchange assets, will be able to procure in the United States or elsewhere the capital equipment they desire. In other cases, capital expansion can be brought about by direct investments on the part of American individuals and corporations. This is the most desirable type of capital import, since it does not subject the balance of payments of a nation to fixed charges.

To the extent that the assistance of the American Government is required and justified in financing capital development in other nations, I would suggest that the Export-Import Bank be used under the supervision of the Foreign Credit Administration. The experience which it has obtained in the granting of such credits will prove valuable in meeting somewhat similar needs in the post-war period.

**E. W. Kemmerer:** Adoption of the Dewey proposal would help to implement the reorganization of monetary systems on a gold standard according to E. W. Kemmerer, emeritus professor of international finance at Princeton University, who appeared before the House Committee on April 26, 1944. He opposed the establishment of the type of world bank favored by the Treasury experts. In elaborating his ideas for monetary reorganization, he proposed what he called a central bank of central banks.

In approving such a bank, Mr. Kemmerer said:

> An international gold standard will call for an international bank with which the central banks of all gold-standard countries should be affiliated and to which they could contribute the necessary capital.
>
> The functions of this bank should be exclusively of a monetary and banking character. It should be a central bank of central banks. The bank should not make long-time loans to its member banks nor otherwise enter the field of fiscal operation. Such activities may be very important in international affairs, but they belong to agencies other than the international central bank.
>
> The principal functions of this bank should be: (a) to serve as an international clearing house for the member central banks; (b) to hold part of the reserve of the member central banks; (c) to collect, organize and help interpret for its members international credit, monetary and other financial information; (d) to serve as a meeting place for conferences, formal and informal, of member bank officials—a function which the existing Bank for International Settlements has usefully performed.



With reference to the Dewey proposal, Mr. Kemmerer said:

> I would say, without passing judgment on the details of the resolution or on the make-up of the Board of Governors, that I believe the purpose of the resolution is sound and that the duties assigned to the Board are proper ones. The United States will have a large responsibility in the great post-war task of world monetary rehabilitation. It should be prepared to act promptly the moment the war ends. The proposed resolution, I take it, is intended to prepare the way for such prompt emergency action, and does not purport to offer a final solution of the problem. The adoption of some such resolution at this time would help implement the kind of monetary reorganization which I am advocating for the post-war period.

**James W. Bell:** In testimony before the House committee on April 28, 1944, James W. Bell, professor of economics at Northwestern University and secretary of the American Economic Association, approved the Dewey plan as a starting point in a program for aid in international reconstruction. Mr. Bell said:

> H. J. Res. 226 recognizes the need of our assuming responsibilities in reconstruction finance, but it also recognizes that it is necessary for the United States to safeguard its own interests and to economize and to conserve its resources.
>
> In its organization and its operation it recognizes the principle that the chief creditor should have dominant control over the loan transactions it makes, and that Congress should have a direct knowledge of what is going on. This bill assumes that control over our own participation in financial operations would be retained, at least, until the satisfactory results in participation loans show the way to closer cooperation.

## VII. Inter-American Bank Plan

IN CONNECTION with discussions of a world bank, it is pertinent to mention the plan for an Inter-American Bank, which originated at a meeting of Foreign Ministers of American republics at Panama in 1939 and was submitted by President Roosevelt on July 5, 1940 to the Senate in the form of a convention for ratification. At the request of the Senate Committee on Foreign Relations, the convention was referred to the Committee on Banking and Currency, a subcommittee of which studied it but took no action.

This convention was signed on behalf of the governments of the United States, Bolivia, Brazil, Colombia, the Dominican Republic, Ecuador, Mexico, Nicaragua and Paraguay and was open to the adherence of others of the American republics. To be effective it required the ratification of five nations, representing 25 per cent of the stockholdings of a proposed $100,000,000 institution. Failure of the Senate to act upon the scheme and very definite opposition in both houses of Congress may indicate possible adverse sentiment with respect to the present proposal.

Very broad powers were proposed for the Inter-American Bank, which was viewed as likely to be highly competitive with private institutions, particularly as regards short-term credits. The proposed Bank was to be chartered by Congress, to have headquarters in this country and branches in Latin American countries, to be tax-exempt, and to be in a position to dominate if not control much of the financing of foreign trade and the extension of long-term credits. The subscription of the United States to capital stock would be $5,000,000.

Specific powers proposed for the Bank included the making of short-term, intermediate and long-term loans in any currency and in gold or silver to participating governments and to fiscal agencies, central banks, political subdivisions, and nationals thereof. The government of the borrower would be required to guarantee the loans. The Bank also would be authorized to deal in securities, both of governments and nationals, subject to a similar guarantee, to deal in precious metals, currencies and foreign exchange, to issue its own securities, and to rediscount bills, acceptances and other obligations of governments and nationals. Critics of the proposal suspected a plan for the use of American gold for the absorption of defaulted securities of Latin American governments.

## VIII. Legislative Status of United Nations Bank

As in the case of International Monetary Fund, Secretary of the Treasury Morgenthau has promised to keep Congressional committees advised with respect to the plan for a United Nations Bank and to take no final action without legislative approval. Secretary Morgenthau appeared in October 1943 before the Senate Committees on Foreign Relations, Banking and Currency and Post-War Economic Policy and Planning and before the House Committees on Foreign Affairs, Banking and Currency, and Coinage, Weights and Measures in connection with



the first outline of the United Nations Bank plan. In reporting progress on his appearance before these committees in April 1944, he gave no details. Any proposal for action by Congress will await an agreement among the nations.

A possible form of legislation was indicated by a bill, H. R. 3854, introduced by Representative Wright Patman of Texas on December 16, 1943, and referred to the House Committee on Banking and Currency. This bill amends the Federal Reserve Act by adding a section approving the establishment by the United Nations and the nations associated with them of an international agency "to aid in meeting the problem of supplying capital for use in promoting industrial, agricultural, and commercial rehabilitation and development of and among such nations during the post-war period."

The Patman bill authorizes the President to enter into an agreement or agreements with foreign governments for the establishment of a United Nations Bank for Reconstruction and Development with an authorized capital of approximately $10,000,000,000, to be organized and to have powers substantially in accordance with the tentative proposal of the Secretary of the Treasury. It authorizes the appropriation of such amounts as may be necessary to enable the United States to subscribe for an appropriate number of shares of such Bank, taking into account the national income and international trade of the United States and other relevant factors.

## IX. Need of Capital for Reconstruction and Development

There is general recognition of the prospective need for large amounts of capital for reconstruction and development in war-stricken areas and for financing trade and industrialization in other parts of the world. The increasing interest within the United States in the affairs of the world may mean a substantial flow of capital to these various regions. The capital may be in the form either of loans, governmental or private, or direct investments by American individuals and corporations in foreign enterprises.

Exportation of capital in the twenties was an important means of providing dollars with which the people of other countries could pay for American goods. Exports of capital will form one way of attaining a complete balance in international payments after the present war, if the United States continues to maintain its traditional excess of exports over imports, as it did in the twenties and thirties, notwithstanding its creditor position. Such outward movement of capital as is accomplished by shipment of gold will promote a redistribution of large stocks now held by the United States.

Industrial activity in the United States in the twenties was stimulated by loans to foreign countries. Many of the loans lacked proper supervision. Funds frequently were not used for productive purposes. There were many adverse factors. The flow of capital diminished in 1928 and ceased entirely in the early thirties. The effect of shutting off this source of dollars for foreign buyers of American goods was to accelerate unfavorable trends responsible for the world depression.

Although the losses suffered by American investors in the thirties created sentiment against further loans to other countries, war developments have introduced new elements which may prove favorable to a revival of foreign investment.

Resumption of the sale of securities of European countries to private investors in the United States will require repeal or modification of the Johnson Act. This law, enacted on April 13, 1934, reflected the resentment in the United States against defaults of foreign securities which were bought during the speculative era of the twenties. The law prohibits the purchase or sale in the United States of the obligations of any foreign government or agency thereof while such government is in default of its obligations to the Government of the United States. The measure is aimed specifically at the European governments which defaulted on the debts to the United States incurred during World War I. The Johnson Act applies only to private financing and not to agencies of the United States Government which may extend assistance to foreign governments.

Drastic laws and regulations applying to the issuance and sale of securities in the United States are among handicaps to a revival of foreign investment. Burdensome restrictions, imposed with a view to the protection of investors following the losses suffered in the thirties, will require reconsideration in the light of the need of encouraging the use of capital in an expansion of private enterprise, at home and abroad.



Having in mind the part played by foreign investments in the boom of the twenties and the depression of the thirties, Congress and executive officials of the government are not likely to take lightly their responsibility in this field for the post-war period.

The Treasury's tentative proposal for a United Nations Bank for Reconstruction and Development raises important questions. Is American participation in a world bank advisable as against independent loans by the United States Government and its nationals? To what extent may the proposed government action affect private lending? Is it possible that, given the conditions under which such a bank might operate successfully, there would be no clear need for it as against private and more limited government undertakings? These issues, with various ramifications, form one of the major problems of the period of transition from war to peace.

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