

**INTERNATIONAL BANK FOR RECONSTRUCTION AND  
DEVELOPMENT**

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*George D. Hooper*  
**HEARING**  
**BEFORE THE**  
**COMMITTEE ON BANKING AND CURRENCY**  
**HOUSE OF REPRESENTATIVES**

**EIGHTY-FIRST CONGRESS**

**FIRST SESSION**

**ON**

**H. R. 4332**

**A BILL TO AMEND THE NATIONAL BANK ACT  
AND THE BRETTON WOODS AGREEMENTS  
ACT, AND FOR OTHER PURPOSES**

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**MAY 23, 1949**

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# INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MONDAY, MAY 23, 1949

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., the Honorable Brent Spence (chairman) presiding.

Present: Messrs. Spence, Brown, Monroney, Rains, Buchanan, Deane, O'Brien, McKinnon, Mitchell, O'Hara, Wolcott, Talle, Kilburn, Cole, and Nicholson.

The CHAIRMAN. We shall consider H. R. 4332.

(H. R. 4332 is as follows:)

[H. R. 4332, 81st Cong., 1st sess.]

A BILL To amend the National Bank Act and the Bretton Woods Agreements Act, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That paragraph Seventh of section 8 of the National Bank Act, as amended (U. S. C., title 12, sec. 24), is amended by adding to the end thereof the following new sentence: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

Sec. 2. The Bretton Woods Agreements Act, as amended (U. S. C., title 22, secs. 286-286k), is amended by adding at the end thereof a new section to be numbered section 15 and to read as follows:

"Sec. 15. (a) Any securities issued by International Bank for Reconstruction and Development (including any guaranty by the bank, whether or not limited in scope), and any securities guaranteed by the bank as to both principal and interest, shall be deemed to be exempted securities within the meaning of paragraph (a) (2) of section 3 of the Act of May 27, 1933, as amended (U. S. C., title 15, sec. 77c), and paragraph (a) (12) of section 3 of the Act of June 6, 1934, as amended (U. S. C., title 15, sec. 78c). The bank shall file with the Securities and Exchange Commission such annual and other reports with regard to such securities as the Commission shall determine to be appropriate in view of the special character of the bank and its operations and necessary in the public interest or for the protection of investors.

"(b) The reports of the National Advisory Council provided for in section 4 (a) (8) of the Bretton Woods Agreements Act shall also cover and include the effectiveness of the provisions of section 15 (a) of this Act and the exemption for securities issued by the bank provided by section 8 of the National Bank Act in facilitating the operations of the bank and the extent to which the operations of the bank may assist in financing European recovery and the reconstruction and development of the economic resources of member countries of the bank and the recommendations of the Council as to any modifications it may deem desirable in the provisions of this Act."

Sec. 3. The Securities and Exchange Commission acting in consultation with the National Advisory Council on International Monetary and Financial Problems is authorized to suspend the provisions of section 15 (a) of the Bretton Woods Agreements Act at any time as to any or all securities issued or guaranteed by the bank during the period of such suspension. The Commission shall include in its annual reports to Congress such information as it shall deem advisable with regard to the operations and effect of this Act and in connection therewith shall include any views submitted for such purpose by any association of dealers registered with the Commission.

The CHAIRMAN. We shall hear first from Mr. Martin.

**STATEMENT OF HON. WILLIAM McCHESNEY MARTIN, JR.,  
ASSISTANT SECRETARY OF THE TREASURY**

Secretary MARTIN. Mr. Chairman and members of the committee, I am appearing before your committee on behalf of the National Advisory Council on International Monetary and Financial Problems to present its views on H. R. 4332, which the committee is about to consider. The bill would amend the National Bank Act to permit national banks to deal in the bonds of the International Bank, and would, by amendment to the Bretton Woods agreements acts, exempt securities issued or guaranteed by the International Bank from the provisions of the securities acts. The National Advisory Council has given serious consideration to the proposed legislation and believes that it should be enacted.

With your permission, I would like to address myself to the policy considerations underlying the National Advisory Council's support of the pending legislation. In the opinion of the National Advisory Council, the International Bank for Reconstruction and Development will have an increasingly important role in the future development of the international capital market. It seems clear that, to the extent that economic and political conditions abroad permit the bank to assume greater responsibility in financing reconstruction and development, it is in the interest of the United States to encourage the bank to assume that responsibility.

During the next few years, it is hoped that many more nations will be in a position to apply for loans to finance projects and programs consistent with the purposes of the bank. The continued effectiveness of the International Bank will depend upon its ability to meet these requests. To do this, the bank will have to raise additional funds in the securities market of the United States.

It is the opinion of the National Advisory Council that the enactment of H. R. 4332 would facilitate the widespread distribution in the United States of securities issued or guaranteed by the International Bank. For a detailed analysis of the structure and operations of the International Bank, particularly with respect to the effect that the proposed legislation would have on its marketing operations, I will defer to the representatives of the bank who will appear before you.

However, if I may I would like to touch briefly upon one of the principal problems which will be remedied if the proposed legislation is enacted.

At the present time, although national banks may invest in securities issued by the International Bank, they are not authorized under the National Bank Act to deal in such securities. The proposed legisla-

tion would remove this legal disability by amending the National Bank Act to permit national banks to deal in securities issued by the International Bank.

Both the International Bank and the National Advisory Council believe that in order that this permission may be really effective in broadening the market for the bank's securities they should be exempted from the Securities Acts. The reason is that the whole marketing system of national banks is geared to deal only in securities which are exempt from the Federal Securities Acts, mainly Federal, State, and municipal securities; and it is not adapted to meet the various requirements pertaining to securities subject to those acts. The proposed legislation would meet this practical difficulty by amending the Bretton Woods Agreements Act to make the securities issued or guaranteed by the International Bank exempt securities under the Securities Acts.

In connection with the enactment of the proposed legislation, careful thought has been given to the position of investors in the United States. I believe that the unique characteristics of the securities of the International Bank and the nature of the safeguards provided in the proposed legislation constitute ample protection.

Mr. BROWN. Why not give State banks the same opportunity given to national banks?

Secretary MARTIN. Was consideration given to State banks?

Mr. LUXFORD (Assistant General Counsel, International Bank for Reconstruction Development). Under the bill as it is presently worded, authorization to deal in securities issued by the International Bank is confined to national banks and State member banks of the Federal Reserve System. State banks are controlled by State laws, and the States can take such action as they see fit. As a matter of fact, about 45 States have authorized investment in International Bank securities by State banks. It would be a matter of each jurisdiction to decide whether or not they wanted to authorize State banks to deal in such securities.

Mr. BROWN. It is left to the States?

Mr. LUXFORD. If State banks are members of the Federal Reserve System, they may still be subject to applicable State laws.

The CHAIRMAN. You may proceed, Mr. Martin.

Mr. WOLCOTT. Just a moment, please, before you go ahead. Why do you qualify it by saying they must be qualified by the Federal Reserve?

Mr. LUXFORD. That is all this legislation would cover if the law were changed. It only affects national banks and State member banks of the Federal Reserve System. State banks, which are not members of the Federal Reserve System, would not be affected by this bill. That would have to be done by the State law. □

Secretary MARTIN. It should be noted that by virtue of the large subscription of the United States in the shares of the International Bank, there is a correspondingly large official participation by the United States in the direction of the bank. Under the guidance of the National Advisory Council, the United States Executive Director, who holds approximately one-third of the total votes of the bank's Executive Board, directs his activities to effectuating the United States policy of making the bank a sound, strong, effective instrumentality for financing appropriate projects for reconstruction and

development. In this connection, it may be noted that the International Bank may not sell its securities in this country without obtaining the prior consent of the National Advisory Council; nor can the bank buy or deal in its securities without that consent.

It should also be borne in mind that the securities of the International Bank are backed by the joint obligation of some 48 nations, each of which is severally liable up to the full amount of its subscription. A nation which might otherwise be tempted to default on a particular foreign obligation might well be deterred from such action by the knowledge that a default to the International Bank is simultaneously a default with respect to 47 other nations upon whom the burden of meeting prorated subscription calls would fall.

Adverting to the protection the United States investor enjoys with respect to foreign securities which are not exempted from the Securities Acts, it may be appropriate to note that the essence of this protection is the requirement for full and fair disclosure of pertinent information. The Securities and Exchange Commission does not make a determination as to the worth of a security offered for sale. It is not the function of the Commission to approve or disapprove any sale of securities so long as the facts concerning the securities are fully stated.

With respect to the International Bank, it may be stated that through its quarterly and annual reports and other statements, it makes a full disclosure to the public of all its activities. Moreover, under the proposed legislation, the bank would be required to file with the Securities and Exchange Commission such annual and other reports with regard to its securities as the Commission shall determine to be appropriate. Finally, if the Securities and Exchange Commission should at any time be of the opinion that the interest of the United States investor requires that the securities in the International Bank be subjected to the Securities Acts, the Commission may, in consultation with the National Advisory Council, suspend the exemption granted under the proposed legislation.

In my opinion, the enactment of the proposed legislation will further the interest the United States has in the continued effective operation of the International Bank without prejudicing the rights of United States investors. I therefore recommend favorable action on the bill under consideration.

The CHAIRMAN. What is the attitude of the independent dealers in regard to this?

Secretary MARTIN. I understand they are perfectly satisfied with this bill, Mr. Chairman.

The CHAIRMAN. Do you feel it is essential the International Bank have this proposed legislation in order to float the securities satisfactorily?

Secretary MARTIN. Yes; I do.

Mr. DEANE. Why were the exemptions opposed in the original Bretton Woods Agreement Act?

Secretary MARTIN. I imagine at that time Congress was considering the bank in a general way. They had no specific experiences with securities of this type. I do not think there was any desire to do anything in writing the legislation other than to conform with what they thought was general practice at the time. Now that there has been experience with the bonds of the bank, I think it is realized that the exemptions are desirable.

Mr. DEANE. Do you think this will offer more competition in the market?

Secretary MARTIN. It will, in my judgment, make a better market in the securities, both from the standpoint of the banker and the investor.

Mr. DEANE. That is all, Mr. Chairman.

Mr. O'BRIEN. Mr. Chairman.

The CHAIRMAN. Mr. O'Brien.

Mr. O'BRIEN. What is the present status of loans made by the International Bank for reconstruction development? Have any borrowers defaulted on loans?

Secretary MARTIN. I would rather have Mr. McCloy answer specific questions on the operations of the bank. We have no indication of any defaults.

Mr. O'BRIEN. What is the extent of the loans they have made?

Mr. LUXFORD. About \$650,000,000.

The CHAIRMAN. Are those loans made to the government of individuals?

Secretary MARTIN. They are made, principally, to governments. The Articles of Agreement of the International Bank require there be at least a government guaranty.

Mr. O'BRIEN. No government has so far defaulted?

Secretary MARTIN. No.

Mr. MCKINNON. Some years ago we passed a law separating investment activities from commercial banking. Isn't there in effect a law which prohibits national banks from dealing in securities?

Secretary MARTIN. That is correct.

Mr. MCKINNON. What was the purpose of that?

Secretary MARTIN. I personally think that was a good law. I think these particular securities are unique and have much the same characteristics as State and municipal securities with respect to which national banks always have had authority to deal.

Therefore, there is no necessity to have them divorced completely from the commercial banks the way you would the general run of corporate securities.

Mr. MCKINNON. What is the difference between a loan this bank may make and an issue the House of Morgan may set up?

Secretary MARTIN. I do not think there is any domestic corporation whose securities you could compare to the International Bank securities. I think they are more comparable to State and Federal securities than to American Telephone, for example. That is a well-known high-grade American issue. I personally would not want to see that law repealed, but I think the proposed exception is warranted.

Mr. MCKINNON. We enabled an exception in Federal Housing which allows the banks to go into that field. Now, we are taking steps in the direction of washing away the general principle.

Secretary MARTIN. There may have been some steps taken in that direction, but I think they are limited to special classes of securities in which there is a broad public interest.

Mr. MCKINNON. That is all.

Mr. NICHOLSON. Mr. Chairman.

The CHAIRMAN. Mr. Nicholson.



Mr. NICHOLSON. My understanding was that this bank was created to build up the industries in several countries and to loan money for that purpose.

Secretary MARTIN. It was created for reconstruction and development; yes, sir.

Mr. NICHOLSON. How much money is available for that bank now?

Secretary MARTIN. I think the uncommitted funds for the bank are in the neighborhood of \$400,000,000. In the future the bank must derive its new dollar funds by the sale of securities.

Mr. NICHOLSON. How many have they sold?

Secretary MARTIN. About \$250,000,000.

Mr. NICHOLSON. They loaned \$650,000,000?

Secretary MARTIN. The difference came from the initial subscription, you see.

Mr. NICHOLSON. How much is the subscription?

Secretary MARTIN. About \$8,000,000,000; the paid-in subscription is about \$2,000,000,000.

Mr. NICHOLSON. You say this money is all loaned to countries and not to industries?

Secretary MARTIN. I do not mean it was all loaned to countries. I mean the bulk of it is. I would say the largest loan the bank has made to date was to France. The bank's charter requires a government guaranty. I think the bank has been tending more toward loans of the type of the Brazilian Light & Power loan where there is a guaranty, but the loan is specifically for the company.

Mr. NICHOLSON. That is all.

Mr. MITCHELL. May I ask a question?

The CHAIRMAN. Mr. Mitchell.

Mr. MITCHELL. You mentioned the Brazilian loan. What effect does the Brazilian loan have on the dollar exchange available to Brazil?

Secretary MARTIN. It improves their dollar position.

Mr. MITCHELL. It improves their position?

Secretary MARTIN. Yes.

Mr. MITCHELL. That is the general effect of the loan of the International Bank?

Secretary MARTIN. That is right.

Mr. MITCHELL. That is all.

Mr. DEANE. You say [reading]:

Finally, if the Securities and Exchange Commission should at any time be of the opinion that the interest of the United States investor requires that the securities in the International Bank be subjected to the Securities Acts, the Commission may, in consultation with the National Advisory Council, suspend the exemption granted under the proposed legislation.

The question I want to ask is this: Will the Securities and Exchange Commission have the final word in deciding that this exemption should be nullified?

Secretary MARTIN. That is correct.

Mr. LUXFORD. The bill gives the Securities and Exchange Commission the power to suspend the exemption conferred. It leaves it to the Commission's discretion.

Secretary MARTIN. That is right—the Securities and Exchange Commission acting with the National Advisory Council.

Mr. MCKINNON. He said simply "may," not "shall."

Mr. LUXFORD. That is true. The bill does not say the Securities and Exchange Commission shall suspend. It says the Commission may suspend. It has the discretion to suspend. It does not have the legal obligation to so act.

Mr. WOLCOTT. Mr. Martin, you said that national banks may now invest in the securities issued by the International Bank. For the purposes of the record, you had better clarify that.

Secretary MARTIN. At the present time they can purchase them, but if they resold them within a period of a year of the like they might be liable to the charge of unlawfully dealing in such securities. It means that any investment they might make in the bank's securities would not be as liquid as they would prefer. This bill would give them the opportunity to buy and sell these bonds and would improve their character as investments.

Mr. WOLCOTT. What position do the investment banks take with respect to that?

Secretary MARTIN. They support it, sir. They are supporting the bill.

Mr. WOLCOTT. I notice with respect to the National Advisory Council, in your statement you said:

In this connection, it may be noted that the International Bank may not sell its securities in this country without obtaining the prior consent of the National Advisory Council, nor can the bank buy or deal in its securities without that consent.

I am speaking now purely from memory, but the thought occurs to me that the National Advisory Council might have assumed some authority or arrogated some authority. The National Advisory Council was set up as a coordinating influence primarily for the purpose of preventing competition among the different agencies of the Government. The National Advisory Council would, for example, coordinate the activities of the Export-Import Bank. The Council would prevent competition there as well as loans made by the Treasury, the Reconstruction Finance Corporation, and all the others. I spent a great deal of thought on this. I do not know whether it has reached the point for criticism. The National Advisory Council has become an administrative agency of the Government going somewhat outside of its scope as contemplated in the Bretton Woods Agreement.

Secretary MARTIN. I can assure you, sir, it is not our intention to go outside the scope. I think in this particular instance, section 4, paragraph (b) (4) of the Bretton Woods Agreement Act applies. I will read it, if I may.

Whenever under the articles of agreement of the fund or the articles of agreement of the bank, the approval, consent, or agreement of the United States is required before an act may be done by the respective institutions, the decision whether such approval, consent, or agreement shall be given or reduced, shall to the extent such provision is not prohibited by section 5 of this act be made by the Council under the general direction of the President. No governor, executive director, or alternate representing the United States shall vote in favor of—

The balance of the provision does not directly relate to this issue.

Mr. WOLCOTT. It seems to me without specific authority on the part of the National Council to arrogate some of the duties imposed, there is an area in there in which cooperation might be in conflict with existing laws with respect to the marketing.

Secretary MARTIN. The Securities and Exchange Commission is still the final authority under the securities laws.

Mr. WOLCOTT. It wouldn't be the final authority under this language if the National Advisory Council did not give its consent; is that not right?

Mr. LUXFORD. The International Bank may not issue any security in the United States market without the approval of the National Advisory Council. The bank may not buy or sell any of its securities in this country without the approval of the National Advisory Council. If we do get the approval of the National Advisory Council then we are still subject to whatever law is applicable with respect to the Securities and Exchange Commission.

Mr. WOLCOTT. The bank cannot deal in its own securities without the consent of the National Advisory Council?

Mr. LUXFORD. That is right.

Mr. WOLCOTT. What jurisdiction has the National Advisory Council?

Mr. LUXFORD. It is derived from the bank's articles of agreement. Article IV, section 8, provides that in addition to the operations specified elsewhere in the agreement, the bank shall have the power to buy and sell securities it has issued, and to buy and sell securities which it has guaranteed or in which it has invested provided that the bank shall obtain the approval of the member in whose territory the securities are to be bought or sold. That provision, taken with the provision of the Bretton Woods Agreements Act, quoted by Mr. Martin, makes the bank's marketing operations in the United States subject to the veto of the National Advisory Council.

Mr. MITCHELL. Why would any bond be any different from another? They are all bonds of the International Bank.

Secretary MARTIN. You could believe there were too many bonds outstanding.

Mr. MITCHELL. There would be no difference in the bonds? In other words, the issue which might affect one country would still be the International Bank's bond?

Secretary MARTIN. That is correct.

Mr. MITCHELL. It wouldn't be considered as affecting one individual country?

Secretary MARTIN. No. Each individual country is given the right to pass on it when the sale is made in that country.

Mr. MITCHELL. I am just talking about the National Advisory Council's decision on the bond which comes into this country.

Secretary MARTIN. Right.

Mr. MITCHELL. It would be just the total number of bonds circulating here?

Secretary MARTIN. That would be one consideration.

The CHAIRMAN. If there are no further questions, you may stand aside. We were very glad to have your testimony.

I understand Mr. McCloy, President of the International Bank for Reconstruction and Development, will testify. However, we understand he has been unavoidably detained and he has not yet arrived. Mr. Luxford will read his statement.

We are glad to have you here, Mr. Luxford.

Mr. ANSEL LUXFORD. I should like to state to the committee that Mr. McCloy received an urgent call at the very last minute which has delayed his arrival. He was expecting very definitely to be here for this hearing. He is still expecting to be here. It is just a matter of

time. I shall read his statement, and I am sure he will arrive in time for the questions.

**STATEMENT OF JOHN J. McCLOY, PRESIDENT, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

Mr. LUXFORD (reading). Mr. Chairman, I appreciate the opportunity to appear before this committee in my capacity as President of the International Bank for Reconstruction and Development. We in the bank look upon the House Banking and Currency Committee as an old friend. Both you, Mr. Chairman, and Mr. Wolcott were members of the United States delegation at the Bretton Woods Conference, and it was this committee that reported out the Bretton Woods Agreements Act pursuant to which the United States accepted membership in the bank.

As you know, the National Advisory Council has proposed to the Congress legislation to amend the Bretton Woods Agreements Act and the National Bank Act in order to facilitate the operations of the International Bank. The bill would permit national banks to deal in the bonds of the International Bank and thus broaden the market for the bonds. It would also exempt securities issued or guaranteed by the bank from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 and thus facilitate the distribution of those securities. The broadening of the market for the bank's bonds in these ways is important to the bank and, in my judgment, would be in the best interests of the United States for reasons which I shall briefly present to you.

This committee is familiar with the organization and purposes of the International Bank. It has been in existence now for nearly 3½ years. It has 48 member countries, including most of the important countries of the world. Of the countries not participating in the Bretton Woods Conference, Russia is the notable exception. Some countries not represented at Bretton Woods—Austria, Finland, Italy, Lebanon, Syria, Siam, and Turkey,—have also become members.

The bank has proved itself to be an effective instrument of international cooperation. The Board of Executive Directors of the bank is now composed of 14 members all of different nationalities but all of whom display the same objectivity and soundness of approach in dealing with the questions of policy which are presented to them. It has an international staff composed of 22 nationalities, which functions with great objectivity and soundness of approach to the problems which arise in connection with the bank's lending operations. I have found the 2 years which I have spent at the bank a heartening experience in the field of international cooperation and I can assure you that the Executive Directors and the administrative staff of the bank are fully conscious of their great responsibilities both to its members and to those who invest in its securities. I am satisfied that the administration of the bank is efficient and entirely capable of discharging those responsibilities.

To date the bank has made or is committed to make loans in the amount of about \$650,000,000. In the spring and summer of 1947 it made a series of four European loans—to France, the Netherlands, Denmark and Luxemburg—aggregating \$497,000,000. These loans came at a time, prior to the inauguration of the European recovery

program, when European resources of dollar exchange had fallen to dangerously low levels and credits from the United States and other sources had largely been exhausted. By assisting the borrowing countries in sustaining for a period the necessary volume of essential imports, the bank's loans helped to prevent a disastrous drop in production, if not economic and political chaos. Among other things the proceeds of the loans were used to purchase steel mill equipment, railroad and merchant marine equipment, commercial aviation equipment, tractors, river barges, agricultural equipment, machine tools, textile machinery, chemicals and cotton, coal and fuel oil for industrial use.

Since 1947 the bank has concentrated its activities largely in the development field, a field which is likely to absorb progressively more attention from the bank. To date the bank has made loans in this field aggregating about \$150,000,000 to assist in financing the development of hydroelectric power and agricultural production in Chile, the purchase of cargo vessels by four Netherlands shipping companies, the development of electric power in Mexico, the expansion of hydroelectric power facilities and telephone installations in Brazil, and the installation of steel-rolling and blooming mills and an electric power plant in Belgium.

Progress in the development field is necessarily slow. It takes a great deal of time and work to bring a development project to the point where it is ready for financing. Furthermore, there is a limit to the speed with which the less developed countries can effectively absorb new capital for development purposes.

The progress of the bank cannot be measured solely by the amount of the loans which it has made. A great deal of progress has also been made in assisting countries to prepare projects for financing.

The bank now has under consideration projects in more than 21 member countries. These projects include power development, the development of transportation and communication facilities, irrigation, reclamation, and other agricultural projects, shipbuilding, migration programs, and industrial and mining development. Many member countries of the bank are eager to develop their economic resources, but they often lack the technical personnel and knowledge to formulate well-planned and economically feasible programs of development. They need technical assistance, as much as they need financial assistance. They are coming more and more, therefore, to look to the bank for help in determining what projects they should put forward for financing in mapping out an appropriate over-all pattern for their economic growth, and in formulating the economic and fiscal measures necessary to put their economies on a stronger and more stable basis. This imposes a heavy responsibility on the staff of the bank, but it is one which I believe we must assume if we want to assure that our funds are wisely invested in practical, productive projects.

Not only is the bank called upon to play an increasingly important role in the selection and preparation of development projects for financing, but under its Articles of Agreement it exercises careful supervision over the use of the proceeds of its loans. The borrower is permitted to withdraw funds only to meet expenses for the purposes of the loan and must satisfy the bank that the funds will be used only for those purposes. To that end the bank requires the borrower to

submit documentary evidence of payment, delivery, and shipment. The bank also checks on the use of the equipment and materials purchased with the proceeds of its loans in order to see that they are effectively used in the project for which the loan was made. In addition, it is the policy of the bank to maintain close relations with its borrowers and to consult with them whenever problems arise which may affect the purposes for which the loan was granted. In other words, the bank is exercising great care to avoid the mistakes which often attended international lending in the past.

The bank is more than a lending institution. As a cooperative international organization, its only purpose is to help its member countries to reconstruct and develop their economies along sound lines with sound financing, by providing technical assistance and advice and stimulating the resumption of private international investment. The bank's member nationals know that our insistence upon practical, productive projects and upon the adoption of sound economic policies derives solely from our desire to assist them and not from any desire to exploit their resources. They accept our advice, because they recognize it to be objective, nonpolitical, and without selfish motivation. Indeed, it is this characteristic of the bank, as much as any other, which in my judgment gives the bank its unique opportunity to be of service.

Now I shall briefly explain why it is so important for the bank to maintain a broad market for its bonds. Only a small part of the subscribed capital of the bank can be used by it in the making of loans. Two percent of the capital is paid in gold or United States dollars and 18 percent is paid in the local currencies of the members and can be used in the making of loans only with their approval. The remaining 80 percent of the subscribed capital of the bank cannot be used in the making of loans, but can only be called when needed to meet obligations of the bank on its borrowing or guaranties. That means that, down to date, the bank has had available out of its capital for use in the making of loans only about \$745,000,000 in dollars or other currencies.

It also means that in the future the bank will have to look more and more to the investment markets for funds with which to conduct its lending operations.

In July 1947, the bank sold in the United States \$150,000,000 of 25-year 3 percent bonds and \$100,000,000 of 10-year 2½ percent bonds. These bonds were sold through over 1,700 securities dealers in 43 States of the United States. The bonds are listed on the New York Stock Exchange and have made an excellent record in the face of the adverse market conditions which have prevailed during a large part of the past 2 years. The 3 percent bonds are now selling above par and the 2½ percent bonds are selling at par.

The bank has also sold to the Bank for International Settlements the equivalent of \$4,000,000 in Swiss franc bonds and has resold with its guaranty to banks and institutional investors in the United States \$28,000,000 of bonds and notes which the bank received for loans made by it to four Dutch shipping companies and to the Belgian Government.

Bonds issued by the bank and its contingent liability on securities guaranteed by it are general obligations of the bank backed by its entire resources. These include, in addition to its liquid assets in

cash and marketable securities, a special reserve fund into which is paid the commission of 1 percent per year which is charged on all loans made or guaranteed by the bank, and if those resources are not sufficient to meet the bank's obligations it can call on the 80 percent of the capital subscriptions of its members, which is subject to call only for that purpose. That 80 percent now aggregates \$6,678,860,000, of which \$2,540,000,000 is an obligation of the United States Government.

The bank is essentially a cooperative and not a profit-making institution. Nonetheless it is important to the credit standing of the bank that its operations shall not be conducted at a loss. In that respect the record of the bank has been creditable. As of March 31, 1949, in addition to over \$6,700,000 held in its special reserve, the bank showed a surplus from operations of over \$10,400,000. While the margin of profit will necessarily be narrower as the bank uses more and more borrowed funds in its lending operations, the record is such as to justify the expectation that the bank can continue to build a satisfactory surplus from its operations.

I shall now speak briefly of the bill. As I have indicated, the capital structure of the bank is such that it must rely for a large part of the funds that it will need for its lending operations on the private investment markets. That I regard as a virtue, because it means that, in its lending operations, the bank must pay due regard to the soundness of its loans and must be prepared from time to time to test its credit in the money markets of the world.

For the time being, at least, the bank must seek most of its loanable funds in the United States market. It is, therefore, important that the market for the bank's bonds in the United States should be as broad as possible. The bill is intended to enable the bank to broaden the market for its bonds and to facilitate the bank's access to that market. In a sense it is only one part of a broad program to expand the market for the bank's securities.

When the bank commenced operations in June 1946, statutory and administrative regulations in many States governing investment by commercial banks, savings banks, insurance companies, and fiduciaries did not permit them to invest in the bank's bonds. Since then the bank has succeeded in obtaining legislation or administrative rulings in many States under which the bank's bonds are legal for investment by those classes of investors. At the present time the bank's bonds are legal for investment by commercial banks in 44 States and the District of Columbia, for savings banks in 27 States and the District of Columbia, for insurance companies in 35 States, and for trust funds in 31 States and the District of Columbia. Under a ruling of the Comptroller of the Currency national banks can purchase the bank's bonds up to 10 percent of their capital and surplus, and the bonds are eligible as security for United States Government deposits.

Under the National Bank Act, however, national banks are not permitted to deal in the bank's bonds, although they are permitted to deal in United States Government bonds and bonds of States and municipalities and other public agencies. The bill would amend the National Bank Act so as to permit national banks and State member banks of the Federal Reserve System to deal in the bonds of the International Bank. That would not only broaden the market for the initial distribution of bonds by the bank but it would also be of benefit

to investors in the bank's bonds because it would enable national banks and other member banks of the Federal Reserve System to maintain the market in the bonds, which would be a stabilizing influence on the market for the bonds.

At the present time the market for the bank's bonds is very narrow and any substantial offering of or bid for the bonds results in substantial fluctuations in prices. If the national banks and other member banks of the Federal Reserve System could take a position in the bank's bonds it would broaden their market and tend to diminish the extent of the fluctuations in their prices.

Moreover, there are two general categories of bonds which are dealt in on the American market. One category includes United States Government, State, and municipal bonds, which are exempt from the Securities Acts, except for the fraud provisions, and which are dealt in primarily by banks and dealers who specialize in those securities. The other category includes bonds of private corporations, which are not exempt from the Securities Acts and which are dealt in primarily by dealers who do not specialize in Government bonds. The bank's bonds are more akin to bonds of the first category and at the present time they are dealt in primarily by dealers who specialize in bonds of that category. The bank believes, therefore, that its bonds should be given the same exemptions from the Securities Acts that are given to United States Government, State, and municipal bonds.

The natural market for the bank's bonds is the same as the market for Government and municipal bonds. At the present time the bank is handicapped in distributing its bonds in that market both because the banks cannot deal in the bank's bonds and because dealers in Government and municipal bonds are not accustomed to deal in securities which are subject to the securities acts and are, therefore, reluctant to deal in the bank's bonds for their own account.

This bill would remove that handicap without impairing the protection of investors. Under the Articles of Agreement of the bank and the Bretton Woods Agreements Act the bank cannot sell securities in the United States without the approval of the National Advisory Council. The United States representative on the Board of Executive Directors of the bank keeps the Council informed of its operations. If at any time the Council considers that the sale of securities by the bank in the United States would be contrary to the public interest or the interests of American investors, it can refuse to approve the sale.

The Securities and Exchange Commission has an observer on the National Advisory Council who is also a member of the staff of the Council. The Commission is thus kept informed of any applications by the bank for approval of the sale of its securities in the United States and the Commission can through its observer consult with and advise the National Advisory Council on all such applications.

Under the bill the Securities and Exchange Commission could require the bank to file with the Commission such annual and other reports with regard to securities issued or guaranteed by the bank as the Commission deemed appropriate and necessary in the public interest or the interest of investors. The Commission can thus be fully informed with regard to sales of securities by the bank and, if the Commission should have reason to believe that the sale of securi-



ties by the bank would be contrary to the public interest or the interests of investors, it could, if it found it necessary to do so after consulting the bank and the National Advisory Council, exercise the power given to it under section 3 of the bill to suspend the exemption of the bank's securities from the securities acts. Thus the Securities and Exchange Commission would still have ample power to require a full disclosure of the facts in connection with any sale of the bank's securities in the United States and to prevent any abuse of the exemptions by the bank.

Last but not least, the bank is an international institution, having on its board of executive directors representatives of its 48 member governments. It is not an institution organized for private profit and its international character requires that it give the fullest practicable publicity to its operations. This it does through annual and quarterly financial reports and releases to the press. The record of the bank's operations in the past 3 years is adequate assurance that investors in its securities will receive full and accurate information as to its financial condition and its operations. Any other assumption would be unrealistic in the extreme. And should there be in the future any adverse change in the policies of the bank in that regard, the Securities and Exchange Commission could suspend the exemptions granted by the proposed legislation.

As the committee knows, I have resigned the presidency of the bank to take effect on or before July 1 and Mr. Eugene Black has been appointed to succeed me. He has been the United States executive director of the bank for the past 2 years and during that period has advised the bank in connection with the sale of its securities. I am confident that under his leadership the bank will continue the progress which it has made in the past 2 years and that its policies and practices in selling securities will be sound and in the best interests of the United States and of investors. I sincerely hope that the Congress will see fit to assist Mr. Black in the important task which lies before him by passing this bill.

Mr. McCloy is here now.

Mr. McCLOY. I apologize for being late.

The CHAIRMAN. Mr. McCloy, are the investment bankers opposed to this legislation, as far as you know?

Mr. McCLOY. Our information is that the investment bankers are not opposed to this legislation. There was some discussion about whether we should ask for authority for national banks not only in regard to the bonds which the International Bank issues, but also in regard to guaranteed securities which would be sold out of our portfolio. We eliminated the latter from the amendment to the National Bank Act. They said they are in favor of the bill.

The CHAIRMAN. The investment banks would participate in these bonds you allocated to the various institutions?

Mr. McCLOY. Yes; we would propose to sell our bonds; with some modifications, primarily as we have sold the bonds before. I think the prior statement indicated we used the dealers to an extent which has been unexampled before. We had over 1,700 in the transaction.

The CHAIRMAN. Do you want the bill passed as it is introduced? Do you have any amendments?

Mr. McCLOY. We have given it a good deal of thought. I would like to have it passed in the form in which it is now. I think it is an important piece of legislation.

Mr. WOLCOTT. Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I believe I should have asked this question of Mr. Martin.

Can the Open Market Committee compel national banks to invest in your bank's bonds?

Mr. McCLOY. No; it cannot compel them.

The CHAIRMAN. Any further questions?

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. This looks like a very good report, Mr. McCloy. I think somebody should say it, and I am glad to say it. I believe our country was well served by our chairman, Mr. Spence, and by the ranking Republican member, Mr. Wolcott, when they met at Bretton Woods, N. H., in 1944, and proceeded to do something about a world bank. I was here for every moment of the prolonged hearings held subsequently on the Bretton Woods agreements. We did our job with great care. We heard testimony from such distinguished bankers and economists as H. Randolph Burgess, Prof. Kemmerer and Prof. O. M. W. Sprague, and many more. I think a number of us were genuinely concerned about a new and complicated arrangement which involved international policy and so much money. I decided to go along with it.

In my speech in the House I said the success of a bank depends, first of all, on its management. I gather from this report the management has been good. There were only 18 votes cast against the bill in the House. I think that is a tribute to Mr. Spence and Mr. Wolcott.

You said you have \$745,000,000 in dollars and other currencies which you have available for making loans. Then you say you have commitments in the amount of \$650,000,000. That would leave only \$95,000,000 available to you. Is that right?

Mr. McCLOY. Together with the borrowing which we have done, we have about \$375,000,000 available for loans at the moment. That would, of course, take into account the proceeds of the last bond issue which we sold, if you consider that.

Mr. TALLE. Will you tell me something about the Bank of International Settlements?

Mr. McCLOY. That has nothing whatever to do with our institution. They purchased some securities of ours which I am told they have since disposed of in their normal operations. We sold \$4,000,000 to the Bank of International Settlements. I am told they have redistributed the bonds.

Mr. TALLE. I expected that bank to go out of existence when the Bretton Woods agreements were adopted.

Mr. McCLOY. Its operations are somewhat limited by funds. It engages in a number of short-term operations. It continues in existence largely because of the exchange of information it provides among the central bankers that meet there at quarterly periods throughout the year. They felt that that was a highly desirable forum in which to discuss their various problems. I think that that, as much as any other consideration, has caused its continuous operation.

Mr. TALLE. I note in particular you said in your statement:

The record of the bank's operations in the past 3 years is adequate assurance that investors in its securities will receive full and accurate information as to its financial condition and its operations.

I am very happy to have that statement, Mr. McCloy. Do you believe these securities would be satisfactory assets for national banks to hold?

Mr. McCLOY. I firmly believe they will. I believe they are and I believe they will be. It is true to say that it is unrealistic to suppose we could operate otherwise than on a full-disclosure basis. The character of the institution, its nature, and the manner of its organization presume that it has to be operated in that manner.

Mr. KILBURN. You said "national" bank. This bill not only proposes national banks, but State banks which are members of the Federal Reserve?

Mr. McCLOY. Anyone; except for restrictions in State legislation, is a prospective customer, whether they be a national bank, State bank, insurance company, or a savings bank. This bill permits national banks, however, to deal in our securities.

Mr. KILBURN. It doesn't permit State banks which are members of the Federal Reserve?

Mr. McCLOY. It does, subject to applicable State laws in that field.

Mr. TALLE. I have always looked at the Bretton Woods Agreements as the financial side of the international situation, and at the United Nations as the political side. It is my opinion that you have done a better job than has been done by the United Nations. I do not know which is the more difficult. But both must be difficult. I think you have done a very fine job.

Mr. McCLOY. You bring up a very interesting point, I think. This is an international organization composed of 48 members. Perhaps the same conditions do not prevail with us which prevail with the United Nations. Our members are not entirely the same. The Soviet Union is not a member of the bank.

Mr. TALLE. That makes a big difference.

Mr. McCLOY. That makes some difference, perhaps. We have a number of countries who are said to affiliate themselves with the policies of the Soviet Union who are members of the bank. I think the main thing in connection with the relatively smooth operation of this international organization is that there is a great deal of work to be done, and it is done without the benefit of microphones in connection with the discussions. It leads to a very objective and impartial analysis of the problems which come before the directors. I think that is a very major thing about the bank. The directors and the staff, although they are international, acquire objectivity. They are very loyal to the institution, as such. It is a very healthy example of international cooperation.

Mr. TALLE. I want it understood, of course, that I do not want to criticize the United Nations.

Mr. McCLOY. Certainly; I understand that. That is the last thing I want to do.

Mr. TALLE. The only gentlemen I know who are connected with it are Mr. Austin and Mr. Jessup. I have the highest regard for both of them. I only want to say I commiserate with them; I know they have a very difficult task to perform.

Thank you.

Mr. DEANE. I would like to ask a question.

Page 2 of your statement indicates the type of activity concentrated upon. Are these loans made directly to countries or does private enterprise enter into the picture?

Mr. McCLOY. We have had a number of loans made directly to private enterprise. In each such case we have to have the guaranty of either the government or the central bank or a comparable institution.

Mr. DEANE. Is there any cooperative effort of the Economic Cooperation Administration with the bank?

Mr. McCLOY. Yes. We keep in close touch with the Economic Cooperation Administration. The type of aid which they render is quite different from ours. When they enter into the lending field we are anxious that they consult with us. We feel we should know what they do, and we do know. They also know what we do. As long as that quantity of money is available under the Economic Cooperation Administration, we are not able to be particularly active in Europe.

If a bank opened up on the other side of the street which can give money away or can lend it on easier terms, your clients are apt to go across the street. Primarily and fundamentally, that is a different thing. That is not a bank; ours is.

Mr. DEANE. Can you conceive of this organization growing into such proportions as to become a substantial financial influence in the country?

Mr. McCLOY. I think so. I think the extent to which we insist on various members in the first place making a disclosure to us is very relevant. We then suggest what we feel they should do in order to tidy up their financial situation. The result of that is that it has a real influence in inducing financial morality and financial stability. We express ourselves not as one country but across the board as 48 countries.

Mr. DEANE. I notice in your statement your bonds of July 1947 were distributed and sold through 1,700 security dealers in 43 States of the United States. What effort is being made in European or member nations to increase the sales of these securities?

Mr. McCLOY. We have made a number of contacts with the potential markets in Europe. There are not too many that can export capital today. However, we have had some very encouraging talks with some of them, particularly with the Dutch and Belgians, and it is possible if money conditions are right we might be able to do something in Switzerland. I would imagine during the course of this year we might be able to announce the sale of an issue of bonds in Europe. We have already sold some from our portfolio, and, of course, a goodly number of bonds on the initial issue were purchased by European buyers. I haven't the figures before me now. Europeans are now in the market to a small degree. I was talking about a regular European issue. When the situation improves we will be able to sell more.

Mr. DEANE. Does the United States depend upon European members of the bank to make the inspection or report on the loans? Or in what way do you determine that?

Mr. McCLOY. We supervise our own loans. We have an office in Paris. We have missions operating around the world all the time. We have a so-called end-use program to check up on the benefits which have been derived from our loans. Primarily, it is to insure

that the proceeds of the loans are used for the purposes for which the loan was sought. We do that ourselves, and we are also able to call upon the central banks of our member countries.

Mr. DEANE. Thank you.

Mr. TALLE. Mr. Chairman?

The CHAIRMAN. Mr. Talle.

Mr. TALLE. If this bill is passed, when do you expect to have a public issue, and for how much?

Mr. McCLOY. I am asked that question a great many times. It is a very difficult question to answer, as you can imagine. It depends upon the pace with which the money which we lend is drawn. That is much slower than one would suppose or imagine before our experience was built up in the field. It depends upon the number of sound projects that can be brought to a state of completion. I would imagine, considering the amount of cash we have on hand and the pace at which our money is going out and the pace with which sound projects are coming to us, there would be no need for a public offering before the end of this year or perhaps the beginning of the next. It is difficult to gage that. Your market conditions are also an element to be considered.