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Authority NND 29548
By JE NARA Date 12-13-07

MEMORANDUM

November 3, 1949

To: The Commission

From:  Walter C. Louchheim, Jr.
Adviser on Foreign Investment

Subject: Public Offerings of Foreign Securities
in Relation to the Point IV Program

There is attached hereto National Advisory Council Staff Document No. 370 which incorporates a memorandum from the Council of Economic Advisers to the National Advisory Council with respect to the public flotation of foreign securities in the financing of the Point IV Program. The CEA memorandum suggests that the National Advisory Council ask the Securities and Exchange Commission to study the subject and report to the Council on it. The memorandum has been circulated to the members of the NAC and it is expected that at an appropriate time it will be made the subject of a study by a working group for action.

Attachment

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National Advisory Council
Staff Document No. 370
October 17, 1949EXECUTIVE OFFICE OF THE PRESIDENT
Council of Economic Advisers

Washington 25, D. C.

October 10, 1949

To: Mr. Dillon Glendinning, Secretary,
National Advisory Council

From: Walter S. Salant

Subject: Public Offerings of Foreign Securities

In connection with the investment aspects of the Point Four Program the Government has placed great emphasis on the desirability of securing private capital. This emphasis has been almost entirely upon direct investment. The stated reason for this is the advantage of direct investment in providing its own technical knowledge and skills. But I believe an important unstated reason is the difficulty of floating foreign securities in the private capital markets.

It seems to me that direct investment has certain clear limitations and that public flotation of foreign securities is a desirable and essential part of The Point Four Program.

For one thing, direct investment is not likely to make available any significant quantity of free dollars to underdeveloped countries. Devaluation of European currencies has made European capital goods more competitive with American capital goods. Investment of American capital in a form which provides free dollars to the underdeveloped countries could be expected to result in their purchasing a considerable quantity of capital goods in Europe, thus contributing to Europe's ability to earn dollars, as well as permitting the underdeveloped countries to secure capital goods where they are cheapest.

At the same time, if it were possible for foreign countries to sell securities to private investors, many of the projects which must be undertaken by public authorities in the underdeveloped country could be financed by private capital here. Thus the mere fact that the borrower was a foreign government would not make it necessary for the United States Government to be the lender. The absence of any source of funds between private direct equity capital and public loan capital will certainly impede the progress of the program.

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Have we not tended to accept too readily the difficulty of floating foreign securities as something about which nothing can be done? Investigation might show that this is in fact the case, but I think it ought not to be taken for granted.

I suggest that the NAC ask the Securities and Exchange Commission to go into this subject and to report to the NAC on it. Among the things that occur to me as worthy of inclusion in such a report are:

(1) an analysis of the credit of the governments of under-developed countries in the United States markets, including such information as it is possible to get concerning any recent attempts by foreign borrowers to secure funds through security offerings. This might be based upon information obtained both from foreign sources and domestic investment banking sources;

(2) statement as to the character of the protection which the American investor gets through SEC requirements, as compared with the protection he gets in connection with domestic securities;

(3) a comparison of the information required by the SEC on publicly offered foreign securities as compared to the information actually given during the 1920's;

(4) some statement concerning the ability of would-be foreign borrowers to meet SEC information requirements; and

(5) recommendations by the SEC as to what, if anything, can be done to improve the market in the United States for foreign securities.

No doubt many other points could be added.

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