THE INTERNATIONAL BANK, AN INSTRUMENT OF WORLD ECONOMIC RECONSTRUCTION

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The International Bank for Reconstruction and Development is commencing operations at a time when the world need for long-term productive credit is perhaps more widespread and desperate than in any previous period of history. The Bank can serve as a major instrumentality in the reconstruction of the economies of war-torn nations and in the development of comparatively backward areas. In so doing, it can materially contribute to the creation of an economic basis for a durable peace. The present article is an attempted appraisal of the powers, limitations, functions and probable course of operations of the Bank in relation to the tasks which confront it.

I. *Objectives of the Bank*

The function of the Bank is to make, participate in and guarantee loans for the reconstruction and development of the economies of member nations. Although the Articles of Agreement do not say so, it is contemplated that these loans will be of long maturity. Loans can be extended only to member governments or to borrowers guaranteed by their governments, central banks or comparable agencies.

The two main types of Bank loans envisaged are for "the restoration of economies destroyed or disrupted by war" and for "the encouragement of the development of productive facilities and resources in less developed countries."

The Bank is supposed to promote long-range balance of payments equilibrium through the development of the productive resources of members "thereby assisting in raising productivity and the standard of living and conditions of labor in their territories." In the immediate post-war years, it will be the Bank's task "to assist in bringing about a smooth transition from a wartime to a peacetime economy."

The Bank is to make loans and guarantees only where private credit is not available on reasonable terms. It is to arrange its loans in accordance with a priority schedule, ensuring that the most urgent and

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useful projects receive first consideration. The Bank shall not be influenced by political considerations, nor may it require that "the proceeds of a loan shall be spent in the territories of any particular member or members."

II. *Reconstruction as against Development Credits*

The Bank is in effect limited to two broad types of operations: reconstruction loans and development loans. Credits to restore and reconstruct the economies of members who "suffered great devastation from enemy occupation or hostilities" will be extended on especially generous terms and will be given priority over other Bank operations. Specifically, "the Bank . . . shall pay special regard (to) . . . expediting the completion of such restoration and reconstruction." On a strict interpretation, this provision might be construed as obligating the Bank to tie up virtually all of its capital in loans to rehabilitate war-torn economies, since the reconstruction requirements of Asia, Eastern and Southern Europe are probably in excess of the Bank's total authorized lending power. That this was not the intent, however, is made clear by another provision of the Articles of Agreement that "the resources and the facilities of the Bank shall be used . . . with equitable consideration to projects for development and projects for reconstruction alike."

Some undetermined priority or right of way is presumably to be given to these reconstruction credits, and it is, therefore, possible to assume that the Bank will draw a clear line of distinction between reconstruction and development operations. The amount of reconstruction credits required is obviously limited by the extent of war damage and war dislocation. Evidently, the magnitude of reconstruction requirements will be conditioned by: (a) the pre-war productive facilities of the borrowing member; (b) the extent of damage to these facilities; and (c) the extent to which repair of that damage requires the use of foreign exchange.

These comments, however, merely skirt on the edges of the many problems involved. Should the Bank require that war-devastated member countries accomplish vital phases of their reconstruction work with their own local resources when the tasks could be performed more expeditiously, efficiently and quickly with borrowed dollars? Should uniform time periods be set for the completion of the over-all reconstruction task? For example, could the Bank legitimately deny a credit which would accomplish basic reconstruction in five years on the grounds that the member could complete the task unaided in twenty? To what extent should reconstruction programs be planned on a regional or continental, rather than merely national, scale?

What interpretation should be given to the requirement in the Bank's

Articles of Agreement that decisions should be nonpolitical in view of the close interrelationship between politics and economics in the contemporary world? Finally, to what extent, if any, will the Bank require that members use up official gold and hard-currency assets and requisition and sell private foreign assets before applying for reconstruction credits? Some of these questions are crucial to the determination of a broad line of Bank policy in respect to reconstruction.

If these policy issues are not dealt with directly, it is possible that the Bank will find itself making a series of *ad hoc* decisions which will not always be consistent with one another, and that the institution will, accordingly, be charged with favoritism or yielding to narrow political considerations.

Where the services or facilities to be rehabilitated are basic to the member nation's economy, there will be a stronger argument for Bank financing than where they are subsidiary or dispensable. This would apply particularly to transportation, coal, power and other facilities which must be restored before the devastated nation can make substantial progress in the remaining work of reconstruction. A second factor is whether the devastation has been sufficiently general to cause such a lowering of productivity as to make labor scarce in relation to the urgent work to be performed. A third dimension of the problem is the relation of the reconstruction loan projects placed before the Bank to the entire economy of the borrowing nation and to its economic relationships with the rest of the world.

In many cases it would appear that the extent and timing of reconstruction assistance by the Bank can best be measured in terms of overall, comprehensive, national reconstruction plans—such as the Monnet Plan in France—which are interrelated in their fundamental aspects and contain both production goals and scheduled flows of raw materials, semi-manufactures, finished products, equipment and labor. A reasonable condition of Bank assistance would be maximum employment by the borrower of his material and human resources in the national reconstruction task. Finally, to ensure a rough equity of treatment of the various claimants, it would seem reasonable that, other things being equal, the extent of assistance should vary more than proportionately with the extent of devastation.

There will be other cases, however, where programming on a continental scale is clearly requisite if the restoration of the productive capacity of devastated areas is to be achieved efficiently and in such a manner as to provide a sound and durable organization of the total economy. Loans for the restoration of European coal production, for example, could most profitably be considered in terms of a continental coal program, based on stimulating the most immediately productive areas and assuring a rational flow of fuel to those nations which most direly need it. This might involve such related problems as readjusting bilateral trading agreements which require uneconomic cross-hauls of fuel and shipment of coal surpluses to hard-currency countries rather than war-devastated member nations.

The same considerations would apply, with perhaps even greater force, to credits for the restoration of European rail transport and power grids. National plans are often based on a compartmentalized conception of the world economy and involve creation of hothouse industries which can ill survive the gales of competition under multilateral trading. Application of broad criteria of continental economic development in the Bank's lending program would obviously create many difficulties. Formally, at least, the Bank's loans must be made on a national, rather than international basis, since the Articles of Agreement provide that the borrowers or guarantors must be member governments.

The Articles of Agreement state clearly and explicitly that the Bank's lending policies should be dictated purely by economic considerations without regard to the politics of member nations. Efforts might be made, however, to deny loans to nations, not because their political policies are objectionable, but because the economic consequences of those policies are considered detrimental to the expeditious achievement of world recovery. While the dividing line between political and economic affairs is sometimes obscure, it is felt that any attempt to evade the nonpolitical character of the Bank by indirection would destroy much of its prestige and usefulness.

With reference to the suggested requirement that members seeking reconstruction loans should be required to requisition and/or sell substantial proportions of their public and private gold and foreign exchange assets, it could be maintained that this would defeat some of the purposes for which the International Fund was set up, accentuate the geographical concentration of gold and key currencies, and weaken the ability of members to withstand balance-of-payment stresses. All this may be true in the long run. However, in the short run, the Bank will be faced with the fact that its available lending power is insufficient to accomplish more than the most essential tasks of world reconstruction. A cardinal, short-run criterion would, therefore, be to extend reconstruction credit only where it is most essential, only where it provides a maximum impetus to production and only where the borrower has no other reasonable alternate source of funds. Moreover, to the extent that credit resources are employed with maximum efficiency and concentrated on the repair of critically important sectors of devastation and dislocation, world-wide economic revival will be stimulated and the danger of the dollar becoming a "scarce currency" will be reduced or averted. A criterion which might be applied to determine the appropriate extent of requisition and/or sale of gold and exchange assets is that holdings in excess of members' quotas in the Fund, together with whatever private exchange balances they may need for normal commercial purposes, are excessive. This would be a drastic decision for the Bank to take, but it would appear legitimate under present circumstances.

Reconstruction of war damage is not conceived of in the narrow sense of restoring to life those specific productive facilities which were destroyed by war. The restoration of obsolescent equipment, of uneconomically located plants, of redundant industries and of hot house enterprises which led a precarious life behind high tariff walls would merely serve to perpetuate economic maladjustments and preserve the rabbit warrens in which international depressions breed. The war has removed a great deal of economic débris; it has made it possible for nations to commence rational economic reconstruction without incurring heavy write-off costs on that part of their obsolete equipment which must be scrapped.

The Bank will presumably define reconstruction in terms of restoring a nation's gross national product to the level prevailing in a pre-war base period. Thus defined, the problem is to assist member nations in utilizing their available resources—raw materials, transport facilities, fuel, power, plant, idle manpower, existing technical and managerial skills—so as to restore pre-war output levels on the basis of a sound, stable economy and on a basis involving minimum loan assistance.

Some of the broad criteria to be considered in reconstruction programming might be: (a) *efficiency*, or optimum use of productive resources to achieve a given gross national product with minimum human and material resource expenditure; (b) *stability*, or minimum reliance for national well-being on those foreign trade goods which are subject to rapid fluctuations of demand and price; (c) *diversification*, or reduced dependence on a small number of productive processes; (d) *viability*, or minimum development of production facilities which can exist only as a result of unreasonable protective and restrictive legislation; (e) *balance*, or reconciliation of reconstruction and developmental projects on a continental or world scale to prevent that creation of specialized excess capacity which is likely to ensue when a group of nations simultaneously plan expansion of the same industries; (f) *integration*, or fostering a type of economic development which will permit eventual simultaneous and efficient employment of idle labor, resources and plant without involving investment requirements for full employment which are out of line with the capacity of the member nation's propensity to save, or which imply continued recourse to the Bank for additional funds; (g) *growth*, or adequate concentration on industrial and other facilities, the long-range demand for which is likely to increase; (h) *repayment*, or financing programs which will create balance of payment surpluses in the borrowing member's economy sufficient for servicing and repayment of loans made; (i) *supplies programming*, or concentration on types of development which do not make exorbitant demands on over-strained production facilities in the countries wherein the International Bank credits are floated, resulting in inordinate postponement of the delivery of essential materials and the possible creation of excess capacity in the supplying nation. The relative importance of these suggested criteria will naturally vary in accordance with the problems and economic structures of the countries seeking credit assistance.

Unlike reconstruction loans, development credits are designed to create new productive facilities in areas where they did not previously exist or else to expand existing ones. The principal directive which the Bank has in this sphere is to encourage the development of "productive facilities and resources in less developed countries." The Bank evidently is supposed to give special consideration to the developmental needs of the under-developed areas of the globe—most of Asia, Africa and Latin America. Whereas the bulk of reconstruction credits will be concentrated on nations with highly complex and integrated economies, the developmental needs of members will be related to the extent of their economic backwardness and to the extent to which they possess inappropriately used or idle human and material resources which can be mobilized to expand productive facilities.

On this interpretation, once the repair of war damage and dislocation in Europe has occurred and once reconversion lending has run its course, the Bank's primary responsibility will be to extend industrialization, modern transportation, inanimate power and scientific agriculture in the areas of the world which presently lack them. The Bank has been given the task in Article I, Section (i) of serving as an agency for the global dissemination of the industrial revolution. To the extent that it does this, it will serve as an international equalizer of power resources, industrial and agricultural productivity and consequently of living standards and public health.

Through this tendency to concentrate on undeveloped areas, the Bank may unintentionally accelerate the secular shift of economic power away from Western Europe and the British Isles. Its activities would tend to diversify the significant channels of international trade and reduce the scope of the metropolitan-colonial trade pattern; import of agricultural and mineral raw materials, export of finished consumer goods.

Extending the frontiers of industrialization will inevitably involve vertical as well as horizontal development of economically backward areas. A mere extension of plantation agriculture and mining in these regions would not, in most cases, accomplish the directive of "raising productivity, the standard of living and conditions of labor. . . ." Where it is economically feasible to do so, it would appear desirable that developmental credits for backward areas provide for the creation of processing facilities, of varying degrees of intricacy, in the raw materials producing nations.

If it becomes the major source of international investment in the post-war world, the Bank will serve to a large extent as the regulator of internationally financed industrial development. Among the main problems confronting its experts will be determining the most economic location for those new industries which it is called upon to finance and estimating the rates at which the global capacity of various industries can be expanded without creating instability and endangering loan repayment. These are not merely technical questions. They involve decisions, to the extent that the Bank is called upon to act affirmatively, as to the shaping of the world's resource and production structure and as to the geographical pattern of industries. The Bank will have to weigh against each other such considerations as the freezing of uneconomic concentrations of industries in ill-adapted areas *versus* the social dislocation which might result if existing labor and productive plant facilities were stranded by reason of the financing of more efficient productive facilities elsewhere.

While the Bank will have complete latitude to cooperate with the self-governing "less developed countries" in financing their emergence to a more advanced economic plane, it will be powerless to give similar assistance to colonies and trusteeships without the concurrence and loan guarantee of the mother country. Where metropolitan governments pursue policies of restricting the economic evolution of their colonies to mere extraction of agricultural and mineral production, the Bank will be unable to affect the situation directly.

Through a judicious use of its power to make developmental loans, the Bank could contribute to mitigating the impact of international cyclical fluctuations and stabilizing world economic conditions. A certain proportion of its lending capacity could be set aside for projects which would contribute in eminent degree to this purpose. Obviously, such projects should be technically of such a nature that work on them can be accelerated or retarded at will; they should require periods of many years for their completion; they should involve a high proportion of capital goods imports in relation to the total loan programs, and they should entail large simultaneous local currency investment by the borrowing countries. Combined hydroelectric developments, involving power, irrigation, navigation and flood control, would be peculiarly suited to this purpose. Railroad construction and modernization programs would also be suitable.

From the standpoint of the lending nations, loans of this character would not only involve net capital creation and the usual magnified derivative stimulus to income and employment, but would concentrate their initial impact on the capital goods industries which generally suffer most from depressions.

From the standpoint of the less developed borrower nations, accelerated use of these loan commitments would help to counteract the reversal of the direction of private capital flow and the deterioration in the terms of trade which are such characteristic features of depression among undeveloped, raw materials exporting nations. The fact that large local currency investments would have to be synchronized with the capital imports would provide an inflationary effect on the economy of the borrower as well as that of the lender.

A program of this character would not involve leaving a large portion of the Bank's capital uncommitted. Loan authorizations could be made at any time. The rate of disbursement, however, would have to be inversely correlated with international business conditions. To ensure the most beneficial results, it would be desirable to distribute loans of this character among borrowers whose ratio of international trade to national income is high and whose exports have proved historically to be highly sensitive to world cyclical movements.

III. *Lending Capacity of the Bank*

The authorized capital of the International Bank is $10 billion; the aggregate capital subscription of those nations which are now members is $7,670 million, and the formal entry of six additional nations will bring the total subscription to about $8 billion. The first two per cent of member subscriptions, which is payable in gold or dollars, has already been called. The next 18 per cent, payable in the local currencies of members, will have been called by May, 1947. The remaining 80 per cent may be called by the Bank in gold or dollars, but only to the extent needed to meet or anticipate losses from the Bank's loans or guarantees.

By May, 1947, the Bank will have acquired some $720 million in gold and dollars, about $80 million in other hard currencies and approximately $800 million in less readily convertible currencies. This is the only portion of the Bank's capital which it can use to make direct loans. Accordingly, the Bank will be obliged to rely heavily on the money markets of the world, and specifically on the American market, to finance the massive global requirements for reconstruction and development which today confront it.

While federal and state legislation governing United States commercial bank investments and use of fiduciary funds at present restrict the purchase of International Bank obligations by these institutions, it should not be impossible to obtain eventually from the United States money market the balance of approximately $6,400 million which the Bank would be legally entitled to lend. Existence of large accumulations of idle funds in commercial banks, savings banks, insurance companies, endowments and in the hands of the public; inability to earn attractive interest on other gilt-edged bonds and debentures, and the comparative safety of the Bank obligations would combine to make bonds and debentures of the Bank desirable securities.

The market has, however, had little experience with comparable international instruments and foreign bonds are not in particularly good repute at present. Accordingly, it is possible that initially the Bank's obligations will not be received with enthusiasm. As a means of self-protection, the Bank may find itself obliged to feel out the market with small flotations in a cautious manner. It may be similarly compelled to concentrate on safe loans as a means of obtaining the confidence of private capital, without which it cannot develop and expand. To the extent that either of these things occur, the International Bank will find it increasingly difficult to satisfy the immense reconstruction credit requirements of the world at a time when United States governmental lending for reconstruction purposes will be dwindling.

An alternate possibility is that the Bank will find means of borrowing the funds it requires during the next two to five years and will be so swamped by the huge volume of legitimate requests for reconstruction assistance that the bulk of its lending power will be obligated.[1] In this event, the Bank would lack funds to carry out its long-range function of guiding and stimulating the development of world resources and industries. Receipt of additional funds through loan servicing and repayment will not materially improve this situation at first, because the Bank's loans will be long-term, with liberal repayment provisions for borrowing members who suffered heavy war devastation.

The total lending power of the Bank cannot exceed subscribed capital, reserves and surplus, an unusually conservative provision which is apparently based on the pessimistic assumption that all the credits extended by the Bank might default simultaneously.

There are several devices by which the Bank might, at some subse-

[1] By comparison, between V-E Day and September 30, 1946, Congress authorized direct credits and grants of $4.35 billion; the United States contributed $2.7 billion to UNRRA; the Export-Import Bank approved $2.2 billion of loan commitments; over $2.1 billion of lend-lease goods was transferred to foreign governments; surplus property with an original cost of $5.9 billion was sold abroad on cash or credit terms, and over $0.4 billion of civilian supplies was given away in occupied countries.

quent date, expand its total lending power. By affirmative vote of three-fifths of the members having four-fifths of the total vote, the Bank may amend the Articles of Agreement, eliminating the restriction of Bank lending authority to the combined capital and surplus of the institution. By a three-fourths vote of the total voting power, the Bank may increase its authorized capitalization to any extent desired, offering new shares to the member nations, but not, of course, requiring any member to purchase those shares.

All these actions can be vetoed by the United States (which possesses over 25 per cent of the total voting power), but not by any other single member nation. The Bretton Woods Agreement Act, Public Law No. 171, 79th Congress, approved July 31, 1945, provides that the President of the United States shall not agree to any amendment to the Bank's Articles, to purchase additional stock in the Bank or to loan of government funds to the Bank without statutory authority from Congress.

If Congress should subsequently decide in favor of an increase in the lending authority of the Bank, possibly the most effective method of accomplishing this would be to raise the ceiling on Bank loans to twice the Bank's capital and surplus. This would increase the scope of the institution without entailing additional American appropriations or adding to the United States public debt. Even under conditions of acute and prolonged world-wide depression, it would appear that a two-to-one ratio of loans to capital would not involve the Bank in major financial risks. A hypothetical illustration will make this clear.

Assume that world depression occurs at a time when the Bank has capital of $8 billion, outstanding loans of $14 billion, cash of $500 million, and an unused borrowing authority of $1.5 billion. Under extremely adverse circumstances, one-half of the Bank's borrowers might be forced to service their loans in local currency for the maximum permissible period of three years. Since the Bank must continue to meet interest and amortization of its debentures in hard currency or else go into default, this would undeniably create a problem. If the Bank was paying an average of three per cent interest and four per cent amortization, it would be obliged to find $490 million a year for three years, or a total of $1,470 million. It could accomplish this in the following manner: In the first place, it would probably have a minimum of $500 million in gold, hard currencies or safe government obligations, representing about a third of the 20 per cent of their capital subscription which members had paid into the Bank. Secondly, if the Bank had been operating for, say, five years prior to the depression with $5 billion of loans outstanding on the average over the period, it would have accumulated $250 million to $375 million in a special reserve to meet loan losses. Assuming the lower figure, the Bank would find that it had to acquire an additional $720 million by calling up 11.3 per cent of that portion of its capital which had not been paid in. After doing this, it would meet all losses during the three-year period and still have $5,680 million of unpaid capital subscriptions which it could call into play to the extent that further suspensions of loan servicing by borrowers made this necessary.

The logic behind this arithmetic is clear. The Bank has two sources of strength which should enable it to weather any cyclical depression which does not degenerate into secular stagnation. First, if the Bank carries out its intent to make long-term loans at low interest rates, the annual service obligations of borrowers will not form a large proportion of their outstanding loans. Secondly, the Bank has $6,400 million in the unpaid capital subscriptions of members which constitute its last line of defense against epidemics of defalcation. About 40 per cent of this $6,400 million is payable in dollars, about 16 per cent in sterling, and an estimated 15 to 20 per cent in other currencies which are likely to remain strong throughout depression periods.

Moreover, since the Bank may avoid depression-caused defaults by permitting borrowers to service their obligations in local currency, it would have an excellent chance to recoup its losses during the upward phases of the business cycle.

IV. *Elasticity of Repayment*

Uncontrolled private foreign lending has resulted historically in waves of default, the most serious of which occurred in 1929–33. One of the basic causes of these defaults was that international portfolio investment consisted primarily of bonds and debentures with rigid servicing obligations, often protected against depreciation by a gold clause. This rigid structure of repayment proved incompatible with the conditions prevailing during cyclical breakdowns of the international economy. Flight movements of short-term capital, erratic fluctuations in new foreign lending and changes in the physical volume, price levels and terms of international trade, particularly such changes as were depression-born, often made it impossible for debtors to service. The inelasticity of the debt instrument made defaults frequent.

The chain of evils that followed the debt defaults of the depression included repatriation of defaulted obligations, continuance of total default when only partial default was economically justified, and, less frequently, outright repudiation of the debtor's foreign obligations.

The Bank provides sufficient elasticity in respect to direct loans to make such defaults less likely. Repayment by a member in his own currency may be permitted for a maximum of three years. The member is naturally obliged to guarantee the exchange value of his local currency repayments, and satisfactory provisions as to conversion of the local currency repayments into the currency of the loan funds must be provided for. In addition, or alternately, "the Bank may modify the terms of amortization or extend the life of the loan, or both." These provisions are to be resorted to when the borrowing nation is faced with "an acute exchange stringency."

These broadly conceived measures of palliation leave the Bank Executive Directors with discretionary power to relax loan conditions to the extent necessary whenever depression and economic breakdown occur.

The Bank would, of course, suffer direct losses whenever it readjusted service payments down to a point below its administrative costs plus the expenses it incurred in borrowing the loan funds from the money market. To the extent that it relied on the local currency repayment provision, however, while the Bank's position in hard currency and gold would be temporarily weakened, there would be no necessary long run loss.

The above provisions should be sufficient to meet all ordinary depression conditions, provided they are realistically applied. The local currency repayment provisions would tide borrowers over brief recessions, but not over long ones. In the former case, borrowers would resume dollar servicing during the period of revival and would, at the same time, be obliged to begin repurchase of their local currency from the Bank.

It is nonetheless possible that the three-year limitation on local-currency repayment of loans will not prove to be a particularly wise provision. Uniform servicing of obligations to the Bank in local currency with exchange guarantee, plus contractual provisions compelling the borrower to devote given proportions of his estimated balance of payments surplus to repurchase of his currency, might have permitted a more rational flow of repayment. Unlike the readjustment provision, repayment in local currency permits upward, as well as downward, variations in the transfer burdens imposed on debtors. It serves to give bonds a status similar to that of equities and reduces or eliminates a major factor of rigidity and cause of dislocation in international balances of payments. It should be noted that the possible disadvantages of the three-year limitation on local-currency servicing are mitigated by the ability of members to use the Fund to ease the difficulties of transfer.

V. *Control over Bank Operations*

The Bank has evidently decided to place primary stress for the present on the sale of its own obligations to the public, rather than on guaranteeing loans made by others. This appears to have been the only possible decision. By borrowing directly from the market, the Bank will automatically pool the risks of its loan portfolio, obtain its funds at a more uniform cost, and be in a position to decide on the interest and amortization charges which borrowers must meet on the basis of far broader considerations than the vagaries, prejudices and experiences of the money market. By selling its own debentures, the Bank will reduce the temptation to concentrate on loans which meet the approval of the investor but do not necessarily effectuate the purposes for which the Bank was founded. It is believed that borrower nations will prefer to obtain funds directly from the Bank on the theory that the terms will be more realistically conceived and that the approved loan purposes will stress over-all development of the borrowers' economies.

The Bank will presumably desire to have great freedom of action, not only in establishing the terms of loans and varying them as circumstances require, but also in making adjustments in the types of currency made available for projects in accordance with changes in world-wide market and supply conditions. The Articles of Agreement definitely restrict the authority of the Bank to lend or convert into other currencies the funds at its disposal. These limitations may become onerous during the first period of Bank operations, but will be progressively relaxed thereafter.

The Bank will start operations with some $800 million of gold and hard currencies received from paid-in capital. These funds may not be loaned or transferred into other currencies without the approval of the nations which contributed them. The same ban applies to repayments of principal of loans made with these funds, but does not apply to interest receipts from the same source.

If the Bank borrows from the money market of a member nation, which it can only do with that member's assent, it is free to convert the funds thus received into other currencies at its pleasure. This gives the Bank enough latitude of action to enable its borrowers to import goods with their loan funds from the most satisfastory world sources of supply. For example, if a nation borrowed $50 million from the Bank in Belgian francs to finance an electric power development and if its engineers discovered, after the project was underway, that price or other considerations made it desirable to shift a portion of the purchase orders from, say, Belgium to Czechoslovakia, then the Bank could sell some of its francs, which it had borrowed in the Belgian money market, for Czechoslovak crowns. This permits a considerable degree of flexibility in varying the different currency components of the Bank loans made with borrowed funds. If no such provisions existed, the prohibition against "tied" loans, *i.e.*, requirements that loan proceeds be spent for the goods of the nation in whose currency the loan was floated, would be meaningless. Each currency in which the Bank operated would then be in a water-tight compartment and all loans would, of necessity, be tied.

The intricate provisions governing the use and convertibility of the Bank's funds serve to emphasize the falseness of a widely held popular belief that the Bank will be controlled by nations which are chronic debtors and, therefore, believers in what the late Lord Keynes termed "the euthanasia of the rentier." While it is a fair assumption that the Bank will favor low interest rates compatible with full employment programming and an expansionist world economy, this will be a consequence, not of any preponderant debtor voice in the councils of the Bank, but of the fact that the world's treasuries have learned from the experiences of the great depression and from the doctrines of modern economic theory.

The control of the Bank's affairs rests in actuality very largely in the hands of the United States. Based on a total capital subscription of $7,670 million, the United States casts 37.5 per cent of the total vote and, together with the United Kingdom, wields an absolute majority of 58.3 per cent.[2] Since the Bank will obtain the bulk of its funds from the United States market, it is worth noting that United States government assent is required before the Bank can either borrow in the United States or lend or transfer any portion of the United States paid-in capital subscription. The extent to which the Bank will be able to func-

[2] The distribution of voting control in the Bank and Fund reflects the shift of economic power from the Eastern to the Western Hemisphere and away from Western Europe.

As far as the International Bank is concerned, 49.8 per cent of the total voting power is vested in Western Hemisphere nations, despite the fact that this hemisphere contains only about ten per cent of the population of the globe. The British Commonwealth of Nations (including India and Egypt, but excluding Eire, Australia and New Zealand which are not members) has 28 per cent of the total voting power.

The breakdown of voting power by continents is as follows:

North America	45.6%	
(of which, United States)		(37.5%)
South America	4.1%	
Europe	34.1%	
(of which, Western Europe)		(29.3%)
(of which, Eastern Europe)		(4.8%)
Asia	13.2%	
Africa	2.5%	

This proportionate breakdown is very largely affected by the failure of the U.S.S.R. to join the Bank or Fund.

The power of the United States in the Bank is immense. (a) The United States may veto any borrowing of funds in its territories. (b) It may veto any amendment to the Articles of Agreement or any proposal to increase capitalization. (c) It will command a majority vote in the Bank with the aid of any combination of the following supporting votes: (1) the United Kingdom vote; (2) the Chinese and French vote; (3) the votes of any three Executive Directors, provided the Executive Director with the least voting power is not one of them.

tion as an international institution will to a large extent depend on the willingness of the United States to give the Bank freedom to borrow and lend dollars at its discretion.

VI. *The Rôle of Private Investment*

What rôle remains for private investment? The Bretton Woods Articles of Agreement state that the Bank may extend credit only if: (a) the member nation in whose territory the project is located is either the borrower or loan guarantor and (b) "the Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower."

Even if the Bank's lending power remains adequate for a long time to come to meet legitimate foreign credit requirements, a large and lucrative preserve will still remain for the private investor.

This reserved area would include:

(a) Flotations which are backed by such excellent collateral that the Bank refuses to participate on the grounds that the private capital market can provide funds on reasonable terms.

(b) For the present at least, the securities of certain non-member nations, such as Australia, New Zealand, U.S.S.R., Sweden and Switzerland.

(c) Securities of private enterprises in the territories of member nations which are offered without guarantee by the local government, its central bank or comparable agency.

(d) The entire area of equity financing plus those direct investments which do not involve security flotations of any sort.

Within the narrower area of sale of foreign government bonds, it is possible that the Bank will lend at interest rates which are so much lower than those which private investors find attractive that it will automatically preëmpt this field. On the other hand, the Bank may encourage both capital participation and risk sharing by private investors. Approval by the International Bank may eventually be regarded by the money market as the criterion of soundness and solvency in respect to most long-term international borrowing by governments.