INTER-AMERICAN BANK

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON

Executive K

(76th Congress, 3d Session)

A CONVENTION FOR THE ESTABLISHMENT OF AN
INTER-AMERICAN BANK, SIGNED ON BEHALF
OF THE UNITED STATES OF AMERICA
ON MAY 10, 1940

MAY 5 AND 6, 1941

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INTER-AMERICAN BANK

MONDAY, MAY 5, 1941

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:15 a. m., in the committee room, Capitol, Senator Claude Pepper (chairman), presiding.

Present: Senators Pepper (chairman), Green, and Shipstead.

Present also: A. A. Berle, Assistant Secretary of State; W. L. Clayton, Deputy Federal Loan Administrator; Bernard Bernstein, Assistant General Counsel, Treasury Department; J. C. Rovensky, Office of the Coordinator of Commercial and Cultural Relations Between the American Republics; Walter Wyatt, General Counsel, Board of Governors of the Federal Reserve System; Walter R. Gardner, Division of Research Statistics, Board of Governors of the Federal Reserve System; Walter E. Trent, economic adviser and technical director of the Rocky Mount Metals Foundation, Barr Building, Washington, D. C.

Senator SHIPSTEAD. Senator Pepper and Senator Green will be here in a few minutes, but I have been asked to open the meeting, and when Senator Pepper arrives he, being the chairman, will preside.

There is a letter here from the Secretary of State in reference to this treaty, and the treaty is here. I suggest the treaty be made a part of the record and the Secretary's letter be made a part of the record. It would have been interesting to have read that letter. I have not seen it until now, but we will put that in the record.

(The treaty and letter are in full as follows:)

[Executive K, 76th Cong., 3d sess.]

MESSAGE FROM THE PRESIDENT OF THE UNITED STATES TRANSMITTING A CONVENTION FOR THE ESTABLISHMENT OF AN INTER-AMERICAN BANK, SIGNED ON BEHALF OF THE UNITED STATES OF AMERICA ON MAY 10, 1940

THE WHITE HOUSE, *July 5, 1940.*

To the Senate of the United States:

To the end that I may receive the advice and consent of the Senate to ratification I transmit herewith a convention for the establishment of an Inter-American Bank. This convention has been signed on behalf of the Governments of the United States, Bolivia, Brazil, Colombia, the Dominican Republic, Ecuador, Mexico, Nicaragua, and Paraguay, and remains open to the adherence of others of the American republics.

I also transmit for the information of the Senate a report on the convention made to me by the Secretary of State.

It is my opinion that the establishment of an Inter-American Bank would be a step of major importance in the development of inter-American financial and economic cooperation and the economic implementation of the good-neighbor policy. It has been apparent for some time that there has existed a wide zone of economic and financial activity among the American republics for which the existing machinery of cooperation has been inadequate.

The Bank, generally speaking, is designed to promote a fuller development of the natural resources of the Americas, to intensify economic and financial relations among the American republics, and to mobilize for the solution of economic problems the best thought and experience in the Americas. Its organization, purposes, and powers are provided for in detail in the charter and bylaws of the Bank, which are annexed to the convention and are integral parts of it.

Since it is envisaged that the proposed Bank would be set up under a Federal charter granted by the United States, I, in accordance with the terms of the convention, request that the Congress issue such a charter. A bill embodying such charter and additional enabling provisions to permit the participation of the Government of the United States in the Bank is transmitted herewith. This bill was drafted by experts of the Departments of State and Treasury, the Federal Loan Agency, and the Board of Governors of the Federal Reserve System.

FRANKLIN D. ROOSEVELT.

(Enclosures: (1) Report of the Secretary of State, with attached memorandum relating to the proposed Inter-American Bank; (2) convention for the establishment of an Inter-American Bank; (3) bill embodying charter of an Inter-American Bank and provisions to permit the participation of the Government of the United States in the Bank.)

JULY 3, 1940.

The PRESIDENT,
The White House:

The undersigned, the Secretary of State, has the honor to lay before the President, with a view to its transmission to the Senate to receive the advice and consent of that body to ratification, if his judgment approve thereof, a convention for the establishment of an Inter-American Bank.

There is also enclosed a copy of a memorandum prepared by the experts of this Department describing in some detail the proposed Inter-American Bank.

Respectfully submitted.

CORDELL HULL.

(Enclosures: (1) Memorandum relating to the proposed Inter-American Bank; (2) convention for the establishment of an Inter-American Bank.)

MEMORANDUM RELATING TO THE PROPOSED INTER-AMERICAN BANK

The present project for the establishment of an Inter-American Bank is the result of several months of intensive work in the Inter-American Financial and Economic Advisory Committee and is the outcome of many years of discussion of the desirability of creating such an institution. The First International Conference of American States discussed the matter of providing adequate inter-American banking facilities, and on April 14, 1890, adopted a resolution recommending that the governments grant liberal concessions to facilitate inter-American banking and especially such as might be necessary for the establishment of an international American bank. This resolution was approved by a vote of 14 to 0, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, the United States, and Venezuela all indicating their concurrence. The Secretary of State, James G. Blaine, in transmitting the resolution to President Harrison indicated his approval of passage of a law by the United States incorporating such an international American bank and President Harrison transmitted the resolution and letter to Secretary Blaine to the Congress for appropriate action.

The Second International Conference of American States on January 21, 1902, recommended that a powerful inter-American bank be set up in New York, Chicago, San Francisco, New Orleans, Buenos Aires, or any other important mercantile center, and that it be assisted in every manner compatible with the internal legislation of each of the American republics. This resolution was signed by Argentina, Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, the United States, and Uruguay.

The provision of inter-American banking facilities, especially in view of the dislocations occasioned by the European war, was discussed at length at the First Pan American Financial Conference which met from May 24 to 29, 1915.

In 1933, the Seventh International Conference of American States, upon the initiative especially of the delegations of Peru and Uruguay, unanimously adopted a resolution recommending the creation of an inter-American bank to establish and promote inter-American credit and the interchange of capital, to collaborate in the reconstruction of national monetary conditions, and to perform such other tasks as the Third Pan American Financial Conference might entrust to it. The Third Pan American Financial Conference did not take place, and the Eighth International Conference of American States in 1938 considered a number of resolutions which had been presented to the Seventh Conference and to the Inter-American Conference for the Maintenance of Peace, which took place in 1936. It resolved to request the Pan American Union to study the possibilities of establishing an organization to carry out the purposes envisaged.

In 1939 the Meeting of the Foreign Ministers of the American Republics at Panamá adopted a resolution creating the Inter-American Financial and Economic Advisory Committee to study, among other things, the need, form, and conditions for the establishment of an inter-American banking institution. Later in the same year the First Meeting of Finance Ministers of the American Republics at Guatemala recommended to the urgent attention of the Inter-American Financial and Economic Advisory Committee a study of the desirability of creating such a bank.

The Inter-American Financial and Economic Advisory Committee began its work in Washington on November 15, 1939, and immediately turned its attention to the matter of an inter-American bank. After several months of intensive effort in which the delegates representing the 21 American republics were assisted by a group of experts from the United States Departments of State and Treasury, the Board of Governors of the Federal Reserve System, and the Federal Loan Agency, the Inter-American Committee on February 7, 1940, adopted a resolution recommending to the governments of the American republics the establishment of such a bank and submitted for their consideration drafts of a convention, charter, and bylaws for its establishment. Comments and suggestions were received from a number of the governments and were carefully studied, and on April 16, 1940, the Inter-American Committee approved the final texts mentioned above.

The charter and bylaws of the proposed institution, which are annexed to the convention and are integral parts of it, provide in detail for its organization, purposes, and power. The Bank is to be an intergovernmental organization. All of the shares are to be subscribed by governments of the American republics, and none of the shares may pass to others than governments of the American republics. The minimum number of shares to be subscribed by each of the American republics in order to participate in the Bank is specified in section 2–B of the bylaws; this schedule is based upon the foreign trade of each of the American republics in the year 1938. According to this schedule the United States is in group H with Argentina and Brazil; the members of this group are required to subscribe to a minimum of 50 shares, or $5,000,000 each. The liability of shareholding governments on their shares is limited to the issue price thereof.

Voting among participating nations is distributed as follows, in accordance with section 2–H of the bylaws: 20 votes for each government for its minimum shares and 1 vote for each additional share which it may subscribe. Important decisions require a four-fifths vote.

The directors of the bank are all to be appointed by the shareholding governments and are to be responsible to them alone. Generally speaking, moreover, the bank may take no action which may affect a particular nation until after that nation has been given an opportunity to object to, or has given its consent, approval, or guaranty to the operation. This safeguard of the interests of individual nations is inherent in the entire plan and appears throughout the drafting. In addition, it is specifically provided in section 5–C that:

"The operations of the bank shall at all times be conducted in conformity with the laws of the territory where the bank is acting and, so far as possible, be conducted in conformity with the policies of the participating government directly concerned."

The powers with which it is proposed to endow the projected institution are specified in section 5–B of the bylaws. In general it may be said that the bank is given rather broad powers, subject to restrictions which will be mentioned immediately below, to engage in all usual banking operations. In keeping with the intergovernmental character of the institution, it is specified that all extensions of credit by the bank, either direct or indirect, must be to a participating government or to a fiscal agency, central bank, political subdivision, or national of a participating government with the guaranty of that government, or, in the case of extensions of credit having a maturity not exceeding 2 years to any such fiscal agency, central bank, political subdivision, or national, which may be made without government guaranty, only if the government thereof does not make a timely objection. In this way, and in accordance with the provisions of section 5–C of the bylaws, which was quoted above, special care has been taken to insure to each country the ability to bar any activity of the bank within its territory which such country may deem undesirable.

While the purposes and powers of the projected Bank have been stated in fairly broad and elastic terms, as is both customary and essential in the organic laws of such institutions, discussions during the drafting of the convention and bylaws indicated that it was the intention of the Inter-American Financial and Economic Advistory Committee to complement existing financial institutions rather than to provide a substitute for them.

In view of the intergovernmental character of the bank, arising especially from the fact that all the participants are sovereign governments, article II of the convention would grant to the proposed Bank certain rights, privileges, immunities, and exemptions which would permit the Bank to carry on any operations to which the governments concerned have indicated no objection without being liable to subsequent unilateral action against the Bank by any of the governments. Special care has been taken in the drafting to concede such rights, privileges, immunities, and exemptions which are essential to the proper functioning of the Bank without permitting abuses to occur. Thus article II, A and D, of the convention permits legal action in regard to adjudicated claims against the Bank and its depositors. Similarly, article II–C specifically excludes general nondiscriminatory taxation, such as income taxation, upon individuals dealing with the Bank from any tax exemption accorded by the convention. Moreover, article II–B assures the bank that, where exchange restrictions or controls exist, it shall be accorded facilities for transferring out from a country, on the most favorable basis, amortization, interest, and other returns only from loans and investments of funds to which the government concerned had not previously made the timely objection which it is privileged to make.

It is provided that the convention shall come into force when ratifications of 5 of the signatory countries which have agreed to subscribe for at least a total of 145 shares of the stock of the Bank have been deposited with the Pan American Union, and that each party shall remain bound under the convention for 1 year after it ceases to participate in or to be in any way obligated to the Bank.

CONVENTION FOR THE ESTABLISHMENT OF AN INTER-AMERICAN BANK

The Governments of the American Republics considering

First, that economic and financial cooperation among the American Republics is an essential factor in fostering the welfare of and maintaining solidarity among these Republics;

Second, that such cooperation would be greatly facilitated by the establishment of an Inter-American Bank;

have resolved to conclude a Convention as follows:

ARTICLE I

The High Contracting Parties agree to the creation of an institution to be known as the "Inter-American Bank" for the purposes and with the powers stated in the proposed Charter and By-Laws annexed hereto. The High Contracting Parties agree that the Bank shall be accorded the powers, rights, and privileges to engage in the various activities, transactions, and operations envisaged in such Charter and By-Laws and further agree to enact any legislation and to take any other action necessary to effectuate and protect such powers, rights, and privileges to the Bank. The United States of America also agrees to grant to the Bank a Charter substantially in accordance with the proposed Charter annexed hereto. Each High Contracting Party hereby agrees to subscribe for the minimum number of shares required of such Party for participation in the Bank as provided in the annexed By-Laws.

ARTICLE II

The High Contracting Parties grant, within their respective territories in time of peace or war and in any period of emergency and in any other situation, the rights, privileges, immunities, and exemptions enumerated in this Article; and agree also to enact any legislation and to take any other action necessary to effectuate and protect such rights, privileges, immunities, and exemptions.

A. The Bank, its assets, obligations to it and its real and personal property of whatsoever nature, including any property deposited with it on a custody basis or otherwise, shall wheresoever located and by whomsoever held, be exempt and immune from (1) requisition, seizure, attachment, execution, confiscation, moratoria, and expropriation; (2) prohibitions, restrictions, regulations, and controls of withdrawal, transfer or export; and (3) currency, monetary, exchange and debt regulation and control; by the High Contracting Parties or any political subdivision thereof, whether or not compensation is offered; provided, however, that nothing in this paragraph shall prevent a High Contracting Party or political subdivision thereof from attaching or levying execution, subject to any prior lien or claim of the Bank, upon admitted or adjudicated claims of its nationals against the Bank or upon property admitted or adjudicated to be held by the Bank for such nationals.

B. Where restrictions, regulations, prohibitions or controls exist or are hereafter imposed in the territory of a High Contracting Party in regard to the conversion or exchange of its currency into foreign currencies, the High Contracting Party shall make available to the Bank, by sale or otherwise, as provided in the next sentence, foreign exchange and precious metals, requested by the Bank, for such local currency acquired by the Bank as a result of loans, discounts, extensions of credit (including those in the form of deposits), guaranties thereof, or investments, made by the Bank to such High Contracting Party, in its securities and obligations, or with its guarantee, express approval or consent, or to which it has made no timely objection as defined in and when expressly provided for by the By-Laws of the Bank, including principal, interest, and other returns thereon. Such foreign exchange and previous metals shall be so made available to the Bank on a basis, as to amount, rate, and all other factors, no less favorable than the most favored treatment extended under any circumstances by the High Contracting Party to any government including its own or to any political subdivision, individual, partnership, association, corporation, or other organization or entity of whatsoever nature.

C. The Bank and its assets and real and personal property of whatsoever nature, including, without limitation of the foregoing, its Charter, franchise, capital, reserves, surplus, income and profits; its activities, transactions, and operations; its shares of stock and all notes, debentures, bonds, and other such obligations issued by the Bank, including dividends and interest thereon, by whomsoever held; any remunerations or salaries paid by the Bank; and any individual, partnership, corporation, association, or other entity in its dealings and relations with the Bank in any of the foregoing matters and in its acquisitions, holdings, transfers, or dispositions of any such shares and obligations of the Bank; shall be exempt and immune from all taxation by a High Contracting Party or a political subdivision thereof now or hereafter imposed and by whatever name described, including, without limitation of the foregoing, excises, duties, and imposts; provided, however, that the foregoing shall not be construed as preventing the imposition by a High Contracting Party or any political subdivision thereof of nondiscriminatory taxes upon nationals of such High Contracting Party with respect to any of the foregoing. Notwithstanding any of the foregoing, neither a High Contracting Party nor any political subdivision thereof shall impose any tax on or measured by salaries or remunerations paid by the Bank to its officers or employees who are citizens of any other High Contracting Party. Nothing in this paragraph shall make the Bank or any other party referred to above exempt or immune from any customs duties or imposts or other taxation imposed on or in connection with the importation or exportation of any article; provided, however, that the exportation of (1) coin, currency, and of intangible property, including, without limitation of the foregoing, shares of stock, credit instruments, securities, and evidences of indebtedness, and (2) precious metals, other than precious metals produced in the territory of the High Contracting Party and being exported for the first time, owned or held by the Bank, or deposited with it on a custody basis or otherwise, and by whomsoever held, shall be exempt and immune from any customs duties or imposts or other taxation. The provisions of this paragraph shall not be construed to restrict in any manner any exemption, deduction, credit, or other allowance accorded by the laws of any of the High Contracting Parties in the determination of a tax imposed by such Party.

D. The Bank, its assets, obligations to it and its real and personal property of whatsoever nature, shall, wheresoever located and by whomsoever held, be subject to attachment or execution by a private party only after final judgment or decree in a suit, action, or proceeding in a court of a High Contracting Party or political subdivision thereof.

E. The shares of stock and the notes, debentures, bonds, and other securities and obligations issued by the Bank shall be exempt and immune from prohibitions, restrictions, regulations, or controls now or hereafter imposed by any High Contracting Party or any political subdivision thereof, with respect to the registration, issue, and sale of stock, notes, debentures, bonds and other securities and obligations; provided that notes, debentures, bonds and other securities and obligations issued by the Bank shall not be issued or sold by the Bank in the territory of a High Contracting Party which makes a timely objection, as provided in the By-Laws of the Bank.

Article III

As used in this Convention and the annexed By-Laws of the Inter-American Bank "nationals" of a High Contracting Party or of a participating country or government shall include any person who is domiciled in, or a citizen or resident of, such High Contracting Party of such participating country or government; and shall also include any individual, partnership, association, corporation or other entity organized under the laws of such High Contracting Party or such participating country or government or political subdivision thereof or having a permanent establishment, such as a branch, office, agency, or other fixed place of business, in the territory of such High Contracting Party or of such participating country or government; but shall not include the Bank.

As used in this Convention and the annexed By-Laws of the Inter-American Bank, "political subdivision" shall include territories, dependencies, possessions, states, departments, provinces, counties, municipalities, districts, and other similar governmental organizations and bodies and agencies and instrumentalities thereof.

Article IV

The original of the present Convention in English, Spanish, Portuguese, and French shall be deposited in the Pan American Union, in Washington, and opened for signature on behalf of the American Republics.

Article V

The present Convention shall be ratified and effectuated by the High Contracting Parties in conformity with their respective constitutional methods. The Pan American Union shall transmit authentic certified copies of the original of the Convention to the High Contracting Parties for the purpose of ratification. The instruments of ratification shall also be deposited in the archives of the Pan American Union, which shall notify the signatory governments of such deposit. Such notification shall be considered as an exchange of ratifications.

Article VI

The present Convention shall come into effect as between such ratifying High Contracting Parties if and when ratifications of this Convention shall have been deposited with the Pan American Union by at least five of the High Contracting Parties which have agreed to subscribe for at least a total of 145 shares of stock of the Bank. Each deposit of ratification shall be accompanied by the designation of a person to serve on the Organizing Committee of the Bank, which Committee shall meet forthwith after the Convention shall have come into effect as provided herein and proceed with all arrangements necessary for prompt organization of the Bank.

ARTICLE VII

Each High Contracting Party shall remain bound under this Convention for one year after such Party ceases to participate in the Bank and ceases to be in any way obligated to the Bank.

ARTICLE VIII

This Convention shall remain open to the adherence of American Republics which are not original signatories. The corresponding instruments shall be deposited in the archives of the Pan American Union which shall communicate them to the other High Contracting Parties.

IN WITNESS WHEREOF: the undersigned plenipotentiaries, having deposited their full powers found to be in due and proper form, sign this Convention on behalf of their respective Governments, and affix thereto their seals on the dates appearing opposite their signatures.

For the UNITED STATES OF AMERICA:		
(s) SUMNER WELLES	May 10, 1940	[SEAL]
For COLOMBIA:		
(s) GABRIEL TURBAY	May 10, 1940	[SEAL]
For the DOMINICAN REPUBLIC:		
(s) A. PASTORIZA	May 10, 1940	[SEAL]
For ECUADOR:		
(s) C. E. ALFARO	May 10, 1940	[SEAL]
For MEXICO:		
(s) F. CASTILLO NÁJERA	May 10, 1940	[SEAL]
For NICARAGUA:		
(s) LEÓN DE BAYLE	May 10, 1940	[SEAL]
For PARAGUAY:		
(s) HORACIO A. FERNÁNDEZ	May 10, 1940	[SEAL]
For BOLIVIA:		
(s) LUIS F. GUACHALLA (*Ad referendum*)	May 10, 1940	[SEAL]
For BRAZIL:		
(s) CARLOS MARTINS PEREIRA E SOUZA	May 13, 1940	[SEAL]

PROPOSED CHARTER OF THE INTER-AMERICAN BANK

SEC. 1. There is hereby created a body corporate with the name "Inter-American Bank," hereinafter referred to as "the Bank."

SEC. 2. The structure, operations, and activities of the Bank shall be as defined by the By-Laws, which are annexed to the Convention relating to the establishment of the Bank. The Bank shall also have all incidental powers necessary and proper to carry out the powers now or hereafter expressly authorized herein or in the By-Laws of the Bank.

SEC. 3. The Bank may begin operations when at least a total of 145 shares of stock of the Bank are subscribed for by at least five governments which have also deposited their ratifications of the aforementioned Convention with the Pan American Union.

SEC. 4. The Bank shall have succession for a period of twenty years from the date of enactment hereof or until such earlier time as it shall be lawfully dissolved. The United States agree not to repeal or amend this charter except upon the request of the Bank pursuant to a four-fifths majority vote of the Board of Directors of the Bank. The United States may extent the charter for additional twenty-year periods upon the request of the Bank pursuant to a four-fifths majority vote of the Board of Directors of the Bank.

SEC. 5. Amendments to the By-Laws of the Bank, consistent with the aforementioned Convention, this Charter, and the purposes of the Bank as now set out in Article 5A of the By-Laws of the Bank, may be adopted by the Bank pursuant to a four-fifths majority vote of the Board of Directors, provided, however, that Article 5A of the By-Laws may not be amended, and provided further, that a unanimous vote of the representatives of all the participating governments (and not merely unanimity of the votes cast) shall be required to increase or decrease the minimum holdings of participating governments in the stock of the Bank and to amend the provisions of the By-Laws relating to the manner and effect of the making of a timely objection by a participating government. As used in this Act four-fifths majority vote of the Board of Directors shall mean four-fifths of the votes cast.

SEC. 6. The Bank shall have power to adopt, alter, and use a corporate seal; and to make such contracts and to acquire, own, hold, use, or dispose of such real and personal property, as may be necessary for the transaction of its business.

SEC. 7. The Bank may sue and be sued, complain and defend, in any court of competent jurisdiction. Any civil suit at law or at equity, brought within the United States, its territories, and possessions, to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and the bank in any such suit may, at any time before the trial thereof, remove such suit into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law.

BY-LAWS OF THE INTER-AMERICAN BANK

1. LOCATION

The principal office of the Bank shall be in the United States of America and at least one branch or agency of the Bank shall be established in the territory of every other participating government. Additional branches and agencies may also be established.

2. CAPITAL STRUCTURE AND PARTICIPATION

A. The capital stock shall be expressed in United States dollars (hereafter referred to as dollars) and shall be authorized in the amount of $100,000,000 consisting of 1,000 shares having a par value of $100,000 each, to be paid for in gold or in dollars. Fifty percent of the issue price of each share shall be paid up at the time of subscription for such share and the balance may be called up at a later date or dates at the discretion of the Board of Directors of the Bank; Provided, however, that with respect to the minimum shares of governments in groups A, B, and C, 25 percent of the issue price of each share shall be paid up at the time of subscription, an additional 25 percent of the issue price shall be paid up within 12 months thereafter, and no calling up of balances shall require any government in such groups to pay more than 25 percent of the issue price of such minimum shares within any 12-month period. Three months' notice shall be given of any calling up of any balance on any shares. Upon the formation of the Bank the shares of stock shall be sold at par. Thereafter the issue price of shares shall be fixed by a four-fifths majority vote of the Board of Directors.

B. Stock shall be available for subscription only to the Governments of the American Republics which have subscribed or adhered to the Convention relating to the Bank. For a Government to participate in the Bank it must subscribe for a minimum number of shares, determined in relation to the dollar value of the total foreign trade of each of the American Republics during the year 1938, as follows:

Group A: Up to 25 million dollars: Costa Rica, Ecuador, El Salavador, Haiti, Honduras, Nicaragua, and Paraguay	5 shares
Group B: Over 25 million dollars and up to 50 million dollars: Dominican Republic, Guatemala, and Panama	10 shares
Group C: Over 50 million dollars and up to 75 million dollars: Bolivia	15 shares
Group D: Over 75 million dollars and up to 100 million dollars: Uruguay	20 shares
Group E: Over 100 million dollars and up to 150 million dollars: Peru	25 shares
Group F: Over 150 million dollars and up to 250 million dollars: Chile, Colombia, and Cuba	30 shares
Group G: Over 250 million dollars and up to 500 million dollars: Mexico and Venezuela	35 shares
Group H: Over 500 million dollars: Argentina, Brazil, and United States of America	50 shares

Each participating government may subscribe for stock in addition to the minimum. Where the demand for such additional stock exceeds the amount available for issue by the Bank such demand will be met on an equal basis from such available shares.

C. Governments of American Republics which do not participate in the Bank at the time of its formation or which shall have at any time ceased to participate in the Bank, shall be permitted to participate in the Bank upon adhering to the Convention relating to the Bank, subscribing for the minimum number of shares, and complying with any other terms and conditions designated in regulations of the Bank.

D. Liability of a shareholder on its shares shall be limited to the issue price of the shares held by it.

E. (1) The shares of stock held by each government shall be security for all the obligations of such government to the Bank and shall not be otherwise pledged or encumbered by the shareholder.

(2) If a government fails to make payment on a share on the day appointed for such payment, the Bank may, after giving reasonable notice to such government, vest in itself title to such share, paying to the defaulting shareholder an amount equal to the fair value of such shares as determined by the Bank less any amount which the Bank considers necessary as additional collateral for any outstanding obligation or liability of such government to the Bank. Failure to make payment on a share on the day appointed for such payment shall deprive the defaulting government of its right to exercise a vote in respect of such share so long as such government remains in default, provided that the failure of a government to make payment on the minimum number of shares required to be subscribed by it shall deprive such government of the right to exercise any voting power during the period of default.

(3) If a government defaults on any other obligation to the Bank, the Bank may, after taking reasonable action to realize on any other collateral given to secure such obligation and after giving reasonable notice to such government, vest in itself title to an appropriate number of shares belonging to such government and apply to the defaulted obligation the fair value of such shares, as determined by the Bank. Any amount remaining, less any amount which the Bank considers necessary as additional collateral for any outstanding obligation or liability of such government to the Bank, shall be paid by the Bank to the defaulting government.

(4) If, after a government has had a reasonable opportunity to present its position to the Board of Directors, the Board by a four-fifths majority vote finds that such government has violated any provision of the Convention relating to the Bank, such government shall cease to participate in the Bank, but its obligations and duties with respect to the Bank shall continue and the Bank may vest in itself title to an appropriate number of shares belonging to such government and apply the fair value of such shares as determined by the Bank to compensate the Bank for such damages as the Bank determines it suffered by reason of such violation. Any amount remaining, less any amount which the Bank considers necessary as additional collateral for any outstanding loan or liability of such government to the Bank shall be paid by the Bank to such government.

F. Shares of stock may be transferred only to the Bank or to other participating governments at a price to be agreed upon between the parties and upon the approval of the transfer by a four-fifths majority vote of the Board of Directors. If, as a result of the transfer of shares of stock or acquisition by the Bank, or for any other reason, a government holds less than the minimum amount of shares of stock required of it, such government shall cease to participate in the Bank, but its obligations and duties with respect to the Bank, shall continue.

G. The capital structure of the Bank, including the number and par value of shares, may be increased or decreased by a four-fifths majority vote of the Board of Directors, except that a unanimous vote of the representatives of all the participating governments (and not merely unanimity of the votes cast) shall be required to increase or decrease the minimum holdings of participating governments.

H. The voting power of the participating governments on the Board of Directors shall be distributed as follows: 20 votes for each government for its minimum shares, and 1 vote for each additional share. However, regardless of the amount of stock owned by it, no government shall have a voting power in excess of 50 percent of the total voting power of all the other participating governments.

3. MANAGEMENT

A. The administration of the Bank shall be vested in the Board of Directors composed of one director and one alternate appointed by each participating government. Each government shall appoint its director and alternate and any nominee or proxy in a manner to be determined by it. Such director shall serve for a period of two years, subject to the pleasure of his government. An alternate and a nominee or proxy shall serve for such period as shall be determined by his government. The Bank shall pay such reasonable expenses as are incurred by the directors and alternates and nominees or proxies in attending any meetings of the Board or any committee of the Bank. The voting power held by a participating government shall be exercised by the director and in his absence by the alternate and in the absence of both the director and alternate by the nominee or proxy of such government in such manner as the Board may provide by regulations. The alternate may otherwise participate in the activities of the Board.

B. Meetings of the Board of Directors shall be held not less than four times a year and may be held either at the principal or any branch office or at any other city in a participating country as the Board may determine. The president may call special or extraordinary meetings of the Board at any time. All meetings, regular, special, or extraordinary, shall be held upon such reasonable notice as the Board may provide by regulations.

C. The Board of Directors shall select a president of the Bank who shall be the chief of the operating staff of the Bank and who also shall be ex officio chairman of the Board, and one or more vice presidents, who shall be ex officio vice chairmen of the Board. The president and vice presidents of the Bank shall hold office for two years, shall be eligible for reelection and may be removed for cause at any time by the Board. The Board of Directors shall determine the order in which vice presidents shall serve as acting president and chairman in the absence of the president.

D. The departmental organization of the Bank shall be determined by the Board of Directors. The heads of departments and other similar officers shall be appointed by the Board on the recommendation of the president. The remainder of the staff shall be appointed by the president.

E. The Board of Directors may also appoint from among its members an executive committee. The Board may at any meeting, by a four-fifths majority vote, authorize the president or the executive committee or any other committee of the Bank to exercies any specified powers of the Board; provided, however, that such powers shall be exercised only until the next meeting of the Board and shall be exercised in a manner consistent with the general policies and practices of the Board. The Board may also, by a four-fifths majority vote, delegate to designated officers and committees of the Bank, for such periods as it may determine, power to make loans and extend credit in such small amounts as may be fixed by the Board.

F. The Board of Directors may appoint advisory committees chosen wholly or partially from persons not regularly employed by the Bank.

G. The Board of Directors, within a year after its first meeting, shall by regulations prescribe the reserves to be established and maintained against demand deposits and other obligations of the Bank and shall prescribe a limitation on the amount of intermediate and long-term assets in relation to capital and surplus; and such regulations shall not be amended, modified, or revoked except by a four-fifths majority vote of the Board.

H. Before the Bank finally approves an intermediate or long-term loan or extension of credit, a full written report on the merits of the proposed transaction shall be prepared by a committee of experts which may include persons other than officers and employees of the Bank.

I. Except as herein otherwise provided, decisions of the Board of Directors shall be by simple majority of the votes cast. In the case of equality of votes, the chairman, or in his absence the vice chairman serving in his stead, shall have a deciding vote. When deemed by the president to be in the best interests of the Bank, decisions of the Board may be made, without a meeting, by polling the directors on specific questions submitted to them in such manner as the Board shall by regulations provide. The Board shall by regulations determine what constitutes a quorum for a meeting.

J. Authorization or approval by four-fifths majority vote of the Board of Directors shall be required for the making and granting of intermediate and long-term loans and credits, including the assumption of the obligation of a guarantor on intermediate and long-term loans and credits; the acquisition and sale of and dealing in intermediate and long-term obligations and securities; the discounting and rediscounting of intermediate and long-term paper; engaging in bullion and foreign exchange transactions and guaranteeing the availability and the rates of exchange of the currencies of participating governments; the issuance of debentures and other securities and obligations of the Bank; the payment of interest on deposits of governments, fiscal agencies and political subdivisions thereof, and central banks; the selection or removal of a president, the vice presidents, heads of departments, and other similar officers of the Bank; the determination of the departmental organization of the Bank and of the functions and duties of the officers and principal employees of the Bank and the executive and other committees; the calling up of the balances due on stock; the establishment, creation, change, or discontinuance of the principal office and branches and agencies of the Bank, and for amending the By-Laws, except that Article 5A of these By-Laws may not be amended, and except that the provisions of these By-Laws relating to the manner and effect of the making of a timely objection by a participating government may not be amended except by a unanimous vote of the representatives of all the participating governments (and not merely unanimity of the votes cast).

K. Authorization or approval of specified series, classes, groups, or other categories of transactions may be made in advance by the Board of Directors by the vote required in such cases by these By-Laws.

4. ACCOUNTS AND PROFITS

A. The financial year of the Bank shall end on December 31.

B. The books and accounts of the Bank shall be expressed in terms of dollars.

C. The Bank shall publish an annual report and at least once a month a statement of account in such form as the Board of Directors may prescribe. The Board shall cause to be prepared a profit and loss account and a balance sheet for each financial year. All published documents shall be printed in the official languages of the participating governments. The Board shall designate a committee of Directors to arrange for examination, at least once a year, of the books and accounts of the Bank by competent experts to be selected by the committee.

D. The yearly net profits of the Bank shall be applied as follows:

1. Not less than 25 percent of such net profits shall be paid into surplus until the surplus is equal in amount to the par value of the authorized capital stock of the Bank.

2. The remainder of such net profits shall be applied toward the payment of a dividend of not more than 3 percent per annum on the paid-up amount of the stock of the Bank; provided, however, that dividends shall be noncumulative and no dividends shall be paid so long as the capital of the Bank is impaired.

3. The balance of such profits shall be paid into surplus and be designated a dividend reserve.

E. The Board of Directors by a four-fifths majority vote may declare dividends out of the dividend reserve in surplus of the Bank, provided, however, that total dividends in any one year, including dividends paid pursuant to paragraph D2 above, shall not be more than 3 percent of the paid-up amount of the stock.

F. The Bank may not be liquidated except by a four-fifths majority vote of the Board of Directors. Upon liquidation of the Bank and after discharge of all the liabilities of the Bank, the assets remaining shall be divided among the shareholders.

G. The shares shall carry equal rights to participate in the profits of the Bank and in any distributions of assets upon liquidation of the Bank.

5. PURPOSES AND POWERS

A. The Bank is created by the American Republics to carry out the following purposes:

(1) Facilitate the prudent investment of funds and stimulate the full productive use of capital and credit.

(2) Assist in stabilizing the currencies of American Republics; encourage general direct exchanges of the currencies of American Republics; encourage the maintenance of adequate monetary reserves; promote the use and distribution of gold and silver; and facilitate monetary equilibrium.

(3) Function as a clearing house for, and in other ways facilitate, the transfer of international payments.

(4) Increase international trade, travel, and exchange of services in the Western Hemisphere.

(5) Promote the development of industry, public utilities, mining, agriculture, commerce, and finance in the Western Hemisphere.

(6) Foster cooperation among the American Republics in the fields of agriculture, industry, public utilities, mining, marketing, commerce, transportation, and related economic and financial matters.

(7) Encourage and promote research in the technology of agriculture, industry, public utilities, mining, and commerce.

(8) Engage in research and contribute expert advice on problems of public finance, exchange, banking, and money as they relate specifically to the problems of American Republics.

(9) Promote publication of data and information relative to the purposes of the Bank.

B. In order to carry out the foregoing purposes, the Bank shall have specific power to:

(1) Make and grant short-term, intermediate, and long-term loans and credits in any currency and in precious metals to participating governments and to fiscal agencies, central banks, political subdivisions and nationals thereof; provided that any such loan or credit having a maturity exceeding two years to any such fiscal agency, central bank, political subdivision, or national shall be guaranteed by the government thereof, and provided further that any such loan or credit having a maturity not exceeding two years shall not be made or granted by the Bank to any such fiscal agency, central bank, political subdivision, or national if the government thereof makes a timely objection.

(2) Buy, sell, hold, and deal in the obligations and securities of any participating government and of fiscal agencies, central banks, political subdivisions and nationals thereof, unless such government makes a timely objection to the purchase thereof; provided that such obligations and securities having maturities exceeding two years as are not the direct liability of such government are guaranteed by such government; and provided further, that the Bank shall not buy obligations and securities that are in default in whole or in part as to principal or interest.

(3) Guarantee in whole or in part credits and loans made from any source to any participating government and to fiscal agencies, central banks, political subdivisions, and nationals thereof, provided that such credits and loans having maturities exceeding two years as are not direct obligations of such government are guaranteed by such government, and provided further that such credits and loans having maturities not exceeding two years as are not direct obligations of such government shall not be guaranteed by the bank if such government makes a timely objection.

(4) Act as a clearing house of funds, balances, checks, drafts, and acceptances.

(5) Buy, sell, hold, and deal in precious metals, currencies, and foreign exchange for its own account, and for the account of others; provided, however, that no such transaction shall be entered into with a fiscal agency, central bank, political subdivision, or national of a participating government, if such government makes a timely objection; and guarantee the availability and the rates of exchange of the currencies of participating governments.

(6) Issue or sell debentures and other securities and obligations of the Bank to obtain assets for the purposes of the Bank, provided that such debentures and other securities and obligations shall not be issued or sold by the Bank in the territory of any participating government which makes a timely objection. The Bank may also borrow in any other manner from participating governments, and from political subdivisions and banking institutions thereof unless the government of the lender makes a timely objection.

(7) Accept, demand, time, and custody deposits and accounts from others, including participating governments and fiscal agencies, central banks, political subdivisions, and nationals thereof unless the participating government makes a timely objection; provided that the Bank shall pay interest, if any, only on deposits of governments, fiscal agencies, and political subdivisions thereof, and central banks.

(8) Discount and rediscount bills, acceptances, and other obligations and instruments of credit of participating governments and fiscal agencies, central banks, political subdivisions, and nationals thereof, provided that such paper having maturity exceeding two years as is not the direct obligation of such government is guaranteed by the government, and provided further that such paper having a maturity not exceeding two years as it is not the direct obligation of such government shall not be discounted or rediscounted by the Bank if such government makes a timely objection.

(9) Rediscount with any government, fiscal agency or banking institution bills, acceptances and instruments of credit taken from the Bank's portfolio; provided, however, that the Bank may not rediscount with a fiscal agency or a banking institution in the territory of a participating government which makes a timely objection.

(10) Open and maintain demand, time, and custody deposits and accounts with governments and banking institutions and arrange with governments and banking institutions to act as agent or correspondent for the Bank, unless such banking institution is situated in the territory of a participating government and such government makes a timely objection.

(11) Act as agent or correspondent for any participating government and for fiscal agencies, central banks, and political subdivisions thereof, unless the government makes a timely objection.

(12) Engage in financial and economic studies and publish reports thereof.

(13) Buy, sell, and deal in cable transfers, accept bills and drafts drawn upon the Bank, and issue letters of credit; all subject to the limitations herein provided with respect to loans, extensions of credit, discounting and rediscounting of paper, and dealing in obligations and securities.

(14) Adopt, alter and use a corporate seal; acquire, own, hold, use, or dispose of such real and personal property as may be necessary for the transaction of its business; and make contracts subject to the limitations herein provided.

(15) Exercise incidental powers necessary and proper to carry out the powers expressly authorized herein.

C. The Board of Directors shall determine the nature of the operations which may be undertaken by the Bank in the exercise of its powers and in order to effectuate its purposes. The operations of the Bank shall at all times be conducted in conformity with the laws of the territory where the Bank is acting and, so far as possible, be conducted in conformity with the policies of the participating government directly concerned.

INTERPRETATIONS AND DEFINITIONS

As used herein:

A. Four-fifths majority vote of the Board of Directors shall mean four-fifths of the votes cast.

B. "Short-term" shall mean a period less than one year; "intermediate" shall mean a period from one to five years; and "long-term" shall mean a period longer than five years; and the period applicable to any outstanding obligation shall be the period remaining to its maturity rather than the period from its issuance to maturity.

C. A government shall be deemed to make a timely objection only if such government, after its director is notified by the Bank of the Bank's proposed action or course of action, presents to the Bank within the reasonable period of time fixed by the Board, through such government's director, alternate, nominee or proxy its objection to such action of course of action. The Bank shall notify the directors representing the governments concerned when the Bank contemplates action or a course of action as to which provision for such timely objection is made in these By-Laws.

DRAFT OF BILL RELATING TO THE ESTABLISHMENT OF AN INTER-AMERICAN BANK

A BILL To create the Inter-American Bank, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That:

Title I—Charter of the Bank

Section 1. There is hereby created a body corporate with the name "Inter-American Bank," hereinafter referred to as "the Bank."

Sec. 2. The structure, operations, and activities of the Bank shall be as defined by the By-Laws, which are annexed to the Convention relating to the establishment of the Bank. The Bank shall also have all incidental powers necessary and proper to carry out the powers now or hereafter expressly authorized herein or in the By-Laws of the Bank.

Sec. 3. The Bank may begin operations when at least a total of 145 shares of stock of the Bank are subscribed for by at least five governments which have also deposited their ratifications of the afore-mentioned Convention with the Pan American Union.

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SEC. 4. The Bank shall have succession for a period of twenty years from the date of enactment hereof or until such earlier time as it shall be lawfully dissolved. The United States agrees not to repeal or amend this Charter except upon the request of the Bank pursuant to a four-fifths majority vote of the Board of Directors of the Bank. The United States may extend the charter for additional twenty-year periods upon the request of the Bank pursuant to a four-fifths majority vote of the Board of Directors of the Bank.

SEC. 5. Amendments to the By-Laws of the Bank, consistent with the aforementioned Convention, this Charter, and the purposes of the Bank as now set out in Article 5 A of the By-Laws of the Bank, may be adopted by the Bank pursuant to a four-fifths majority vote of the Board of Directors, provided, however, that Article 5 A of the By-Laws may not be amended, and provided further, that a unanimous vote of the representatives of all the participating governments (and not merely unanimity of the votes cast) shall be required to increase or decrease the minimum holdings of participating governments in the stock of the Bank and to amend the provisions of the By-Laws relating to the manner and effect of the making of a timely objection by a participating government. As used in this act four-fifths majority vote of the Board of Directors shall mean four-fifths of the votes cast.

SEC. 6. The Bank shall have power to adopt, alter and use a corporate seal; and to make such contracts and to acquire, own, hold, use or dispose of such real and personal property, as may be necessary for the transaction of its business.

SEC. 7. The Bank may sue and be sued, complain and defend, in any court of competent jurisdiction. Any civil suit at law or at equity, brought within the United States, its territories and possessions, to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and the Bank in any such suit may, at any time before the trial thereof, remove such suit into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law.

TITLE II—PARTICIPATION OF UNITED STATES

SEC. 201. The United States of America grants the rights, privileges, immunities, and exemptions enumerated in Article II of the Convention for the Establishment of an Inter-American Bank.

SEC. 202. There is hereby created the Inter-American Bank Committee (herein called the "Committee"), which shall consist of the Secretary of State, the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator. Each such official may from time to time appoint a representative to act for him. The Committee shall appoint a person to serve on the Organizing Committee of the Bank and shall also appoint and fix the compensation (if any) of the director and alternate, and any nominee or proxy, to represent the United States on the board of directors of the Bank; and nothing in this or any other law shall prevent any member of the Committee or any other officer or employee of the United States or any director, officer, or employee of any Federal Reserve Bank or of any corporation a majority of the stock of which is owned or controlled, directly or indirectly, by the United States from being eligible to serve also on such Organizing Committee or as such director, alternate, nominee, or proxy, or in any other capacity, with the Inter-American Bank. The director and alternate shall serve for a period of two years, subject to the pleasure of the Committee; and the nominee or proxy shall serve at the pleasure of the Committee without a fixed term. The director, or an alternate, nominee or proxy serving in his stead, shall have full power to represent the United States on the Board of Directors, and to decide whether or not to enter a timely objection on behalf of the United States where provision is made for such objection under the By-Laws of the Bank; but such director, alternate, nominee, or proxy shall keep the Committee informed with respect to matters involving the Bank and shall in any event enter a timely objection pursuant to the By-Laws of the Bank when directed to do so by the Committee.

SEC. 203. Notwithstanding any other provision of law, the shares of stock of the Bank to be acquired by the United States shall be subscribed and paid for by the Reconstruction Finance Corporation, and the Reconstruction Finance Corporation is authorized and directed to subscribe and pay for at least fifty shares of the stock of the Bank and such additional number of shares as the

Committee may from time to time determine: *Provided*, That the Reconstruction Finance Corporation shall not at any time hold shares of the Bank's stock of an aggregate par value of more than twenty-five million dollars. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by an amount sufficient to carry out the provisions of this section, and of section 204 of this Title. The compensation and expenses of the director, alternate, nominee, and proxy may be paid by the Reconstruction Finance Corporation out of any funds at its disposal.

SEC. 204. Notwithstanding any other provision of law, the Reconstruction Finance Corporation and the Export-Import Bank of Washington are each authorized to purchase and sell debentures and other obligations of the Inter-American Bank and to make loans to the Inter-American Bank upon such security and upon such terms and conditions as their respective governing boards may determine.

SEC. 205. Moneys of the Bank, including gold and silver coin or bullion, may be deposited with the Treasurer of the United States subject to check by authority of the Bank: *Provided however*, that no interest shall be paid on any such deposits.

SEC. 206. Section 14 of the Federal Reserve Act is amended by adding the following paragraph at the end thereof:

"(h) With the consent of the Board of Governors of the Federal Reserve System and subject to such regulations and limitations as the Board of Governors may prescribe, each Federal Reserve Bank shall have power to act as depositary, custodian, and financial agent for the Inter-American Bank, to establish correspondent relationships with and open and maintain banking accounts for and with the Inter-American Bank, to purchase, sell, and deal in any obligations of the Inter-American Bank, and to effect for or with the Inter-American Bank any transaction which such Federal Reserve Bank could effect if the Inter-American Bank were a member bank of the Federal Reserve System or a bank located in a foreign country."

SEC. 207. This Act may be cited as the "Inter-American Bank Act."

DEPARTMENT OF STATE,
Washington, March 8, 1941.

The Honorable WALTER F. GEORGE,
United States Senate.

MY DEAR SENATOR GEORGE: In a memorandum relating to the proposed Inter-American Bank attached to my report of July 3, 1940, which was transmitted to the Senate with the President's message of July 5, 1940, it was stated:

"While the purposes and powers of the projected bank have been stated in fairly broad and elastic terms, as is both customary and essential in the organic laws of such institutions, discussions during the drafting of the convention and bylaws indicated that it was the intention of the Inter-American Financial and Economic Advisory Committee to complement existing financial institutions rather than to provide a substitute for them."

Certain provisions of section 5B of the draft bylaws would enable the bank to deal in the securities of and make loans or extend credits having maturity not exceeding 2 years to nationals of a participating government without any further guaranty so long as the participating government makes no timely objection. It is suggested that this might permit the entry of the bank into a type of business not now intended or contemplated.

Accordingly, it seems desirable to clarify the situation by amending as soon as practicable after the organization of the bank the bylaws to limit such operations to those which are guaranteed by a participating government, central bank, or other acceptable banking institution. This would, of course, allow further amendment of the pertinent provisions of the bylaws at some future time to permit such operations without such guaranty if an emergency should alter the present situation. This would not change the existing provisions of bylaws regarding operations having a maturity of 2 years or more which must be guaranteed by the national's government.

On my own behalf and on behalf of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator, I am prepared to state, for your information and guidance in passing upon the above-mentioned convention that, should we participate in the Inter-American Bank Committee as provided in the proposed bill, it would be our purpose, so soon as the bank is established, to undertake to have the representative of the United States of America on the board of directors exercise his best efforts to bring about an amendment of the bylaws of the bank as indicated above.

Sincerely yours,

CORDELL HULL.

Senator SHIPSTEAD. Now, which one of you gentlemen will care to make a statement to open the hearings? Are you from the Secretary of State? Who is from the Secretary of State? Mr. Berle?

STATEMENT OF A. A. BERLE, JR., ASSISTANT SECRETARY OF STATE

Mr. BERLE. Yes, Senator Shipstead; if I may make a very brief opening statement on behalf of the State Department, I should like to say at the beginning that this is a project that is being sponsored in large measure and urged by the State Department, but as it touches in the fields of currency and finance, plainly the State Department could not go through with it except by the cooperative action of a number of other Departments.

The technique of the convention and the supporting legislation was accordingly worked out through the cooperation of the Treasury, the Federal Loan Agency, the Federal Reserve Board, and more recently the Coordinator of Cultural and Commercial Relations between the American republics, commonly known as Mr. Rockefeller's office which is represented here by Mr. Rovensky, who is a banker of great experience in his own right, and with the asisstance of a number of specialists. There are here represented the Treasury, Mr. Bernstein; the Federal Reserve, the Coordinator's office, and the Federal Loan Agency, who can go on and carry out the detailed analysis on many phases of which they have worked and in respect to which all of them have approved.

I should like to say also that so far as we are now aware, there is no opposition to the convention or to the supporting legislation.

The letter addressed to Senator George by the Secretary of State which you just put in the record, refers to the only suggestions made as to the operation of the proposed bank. There was a group of New York commercial bankers who feared that the banking organism proposed to be set up might compete with their business. Since that was not the idea of the organization, nor was it in any way a necessary result, meetings were held with the representatives of these bankers. They were, of course, the bankers which had foreign branch service in and about South America and the West Indies.

At the close of a number of meetings, the first one being held informally by Mr. Rovensky, and the final meeting being held at the State Department, an agreement was reached that in the event that the convention was adopted and the legislation carried through and the bank set up, a slight change in the bylaws would be made indicating that it was not the purpose to compete with existing banks. Therefore, as we are informed, they dropped any opposition which they might have.

The project itself is, of course, not a new project. It first appears formally, so far as I know, about 50 years ago, when the Pan American Union was founded. The proposal was then made that the countries forming the Pan American Union should combine in an inter-American bank. At that time they were principally afraid of the monopoly on short- and long-term credit which was being exercised by certain of the London bankers, and the desire was expressed to try to work out an inter-American bank which could serve as a cooperative vehicle of banks for the American republics. That was recommended to the Congress at the time the Pan American Union was set up, and no action was taken on the project at that time. It was subsequently revived at various times, culminating finally in the proposal which was made shortly after the outbreak of the present war.

The circumstances leading to the renewal of the proposal are worth a word, we think. It was plain that the first effect of the war would be to restrict the normal financing which had been the chief reliance of South American countries. The only source of such financing left open in any event would presumably be the United States and such limited amount of financing as the British Government might feel that it could or might wish to do for strictly war purposes. In effect, of course, that interrupted any normal flow as between Latin America and Europe.

At the same time, it was considered probable that the effect of the war would be to disturb the usual Latin-American markets, and incidentally to interfere very much with our own usual export markets. And, of course, that has already happened. In brief, the possibility was envisaged that we might have to stand something like an inter-American hemispheric quasi siege, blockades, and counterblockades, the drawing of finances into war purposes and the stoppage of the usual and normal financing by which their commerce and ours had normally progressed.

The only possible exceptions to that were the American commercial bankers and as to them we had already experienced a stoppage for a variety of reasons which perhaps we need not go into now, because long-term financing between this country and Latin America had in large measure ceased.

There is no use in trying to go back into the rather dreary record of the long-term financing which had led to the general crash of Latin-American long-term financing in 1929 and after. Since this is an executive session, I may say it is my personal opinion that while fault lay on both sides I personally find it is fairly attributable in part to the inexperience of the American bankers who rushed in where perhaps more experienced men in the field would not have gone.

Senator PEPPER. I apologize for my tardiness. Go ahead from where you were.

Mr. BERLE. We are all trying to do too many things these days.

Senator SHIPSTEAD. I may say to Senator Pepper that Mr. Berle is making a very interesting statement as to the background and history of what has been attempted in the past.

Senator PEPPER. That is good.

Mr. BERLE. Accordingly, shortly after the outbreak of the war, President Roosevelt indicated that it would be the policy of this Government, so far as possible, to maintain intact the economic life of the New World; normal, so far as possible, but with whatever changes and additions as might be needed.

You will find in the Pan American Day address of 1940 a statement that if this Government were able to prevent it, no Latin-American nation would be required to sell its sovereignty or impair its free political operations by reason of economic pressures placed on it from overseas. This, of course, while it sounds unusual, is nothing more than the necessary and obvious implementation of the Monroe Doctrine in the economic field.

The events of the next few weeks, that is to say, the campaign of last spring, heightened the obvious dangers of the situation. We already had before us the corrosion which the Axis Powers had exercised over the countries within their own domination, and we likewise had before us some very interesting pronouncements from the German foreign office indicating that they would use the buying power of Europe and the financing power of Europe, which they believed they would control, to exercise such control as they could on the political policies of the nations lying to the south of us. The result of that was that the Inter-American Bank, which by that time had reached project form, became increasingly a matter of direct discussion. It had already been thrashed out in the Inter-American Economic and Fnancial Advisory Committee, which, as you know, is a joint committee of all the American republics. It is in permanent session in Washington for the duration of the war, and is designed to discuss the common economic problems.

The Inter-American Bank project—a project of many of the American republics was again brought forward. We endeavored to pound out the details in the committee, and at the close of many weeks of very painstaking work, in which the Federal Loan Agency, the Federal Reserve, and the Treasury were kind enough to participate, the convention which is now before you was finally drafted. It was then referred to all of the various governments, and a considerable number of them signified their willingness to join the plan in the event it should be adopted.

At the time of the Habana conference, last July, announcement was made of that fact, and the Secretary of State indicated in his opening address that at the appropriate time, as it seemed to become necessary, the United States would press for the completion of the Inter-American Bank. The subsequent course of military events has not lifted the pressure in any way, and accordingly now seems an appropriate time to press for the completion of the bank, and set it up.

The bank itself is conceived to do three or four things which I think the Treasury, the Federal Loan Agency, and the Federal Reserve will probably wish to explain in more technical terms than I can. The first and the simplest function, perhaps, is that there must now be a means of making capital available to these countries on some basis which is less dangerous than the mere somewhat whimsical operations of overseas financial houses. At any time the sentiment, the difficulties, the dangers, or the mere desires, of a group of people may cut off the necessary and continuous flow of that finance, and no longer can we operate on that basis. To a considerable extent of course that has been carried on now through the activity of the Export-Import Bank, but it is desirable to have that done by cooperative process so that it is not always a single country which has the sole interest, which is lending, no other country having any stake in the ultimate repayment. It is a good deal sounder if you have it on that basis.

Senator SHIPSTEAD. Would you prefer to proceed with your statement? I wish to ask some questions, but I do not want to interrupt your statement.

Mr. BERLE. Please go ahead.

Senator SHIPSTEAD. As I understand, the Export-Import Bank is primarily a bank for making loans.

Mr. BERLE. That is right.

Senator SHIPSTEAD. I may be anticipating some other testimony. The intention is to make this a real bank, to handle exchange on the western continents, and to make available whatever capital there is in these countries, so that they can have some capital?

Mr. BERLE. That is exactly the idea.

Senator SHIPSTEAD. For commercial transactions?

Mr. BERLE. And for longer-term loans.

Senator SHIPSTEAD. Would the long-term loans be made by the bank, or floated by the bank?

Mr. BERLE. Both. I may add that there is one very interesting and odd circumstance in that connection. Latin-America is commonly said to be without capital, and, of course, that is in considerable measure true; but a part of the savings of Latin America—and there are very considerable savings—comes to the United States, and is there held on deposit in various institutions, and there is no way for a Latin-American country to get its own savings back for productive use in its own country, except by coming into the New York market or some other money market.

Of course, one of the reasons why that happens is the fear of the fluctuations in their own exchange, and the greater faith in the American dollar. Therefore, if it were possible to have an institution which would preserve the stability of exchange, which we have here, it would then become possible to have a vehicle with which the savings of Latin America could be devoted to Latin-American projects and therefore take some of the strain of that financing off us and make it a vastly sounder process.

A second point, of course, lies in the fact that at any given time we may be in a position in which, because of our own superior credit position, we can no longer merely collect loans in dollars in the way in which we used to believe it was easily possible. As we rapidly become the senior creditor there, and as very large sums may become due to us, there is no way of collecting those in dollars unless at that time we happen to be taking an equal amount of Latin-American goods into the American market. The bulk of Latin-American goods, or a very large part of them, used to go to Europe, so that we might not be able to do that at any time. Obviously there is no use in bringing about a situation in which you are forcing your debtor to default, particularly when he does not wish to default. Many of these countries have a much better debt record than they are publicly given credit for.

In such case the logic of the situation, of course, would indicate a means by which those loans, if not extended, could be collected in the exchange of the country of payment—for Chile to pay in pesos, of which she has plenty, in place of dollars. Consequently you would take that money in. Obviously, there is no point in merely making that money sterile, thereby deflating or cramping the life of the country. The logic of it would be to endeavor to use the money productively within the country where it is until such time as the balance finally comes around and we can get it out. So that we likewise have to have a vehicle which can use the American loans as they are collected, somewhat as a revolving fund, to take care of the life of the country.

We have learned that both politically and economically the maintenance of the lives of these countries is important to us, as well as to them, besides being ordinary, decent humanity.

Senator SHIPSTEAD. The intention is to make it really a commercial bank rather than a political bank?

Mr. BERLE. Oh, yes; very much so.

Senator SHIPSTEAD. That would be the best politics, too, would it not?

Mr. BERLE. I think so; emphatically. You have to feel your way, but the object is to make it a real financial institution. The political factor is only on a very large scale; anything that supports the economics of these countries is good politics for us. To that extent I suppose you could call it politics.

Senator PEPPER. In other words, there is even good politics?

Mr. BERLE. There is even good politics, Senator.

A third point follows along the line of Senator Shipstead's question. It is obvious that there will be capital movements from this part of the world to South America and adjacent countries, and that those capital movements will be continuing for a more or less indefinite time.

In the past movements of capital have been regarded as, frankly, imperialist. They usually led later to difficulties of one sort and another. The other country did not like to pay; the interests built up were frequently supposed to be tyrannous. We are still liquidating many of the nineteenth-century messes which were occasioned by the somewhat violent and not too enlightened moves of capital. As nearly as one can see it, the object would seem to be capital movements which are worked out not merely because some concessionaire wishes to make a profit but following the more careful plans of the various governments involved with a view to the steady development of the country.

There has usually not been any great difficulty in financing which did develop the country. The unhappy experiences in finance were either where the money was squandered or where it was used to build up some kind of a rather tyrannous foreign monopoly which the country resented.

The newer form of finance, which we are gradually working out, seems to be much sounder. The Inter-American Bank, accordingly, was conceived as a flotation medium for debentures which could be vastly better secured than the old very speculative forms of finance, and the real security would be that by reason of careful handling—disinterested working out of the projects—they could be made to serve national needs and actually produce a better result.

There is, finally, one other possibility which perhaps more nearly falls in our own interest, though we believe it is in the general interest of all the American republics. We have at least conceived the possibility that military events may move badly in Europe, and that you would then have the announced intention of the Axis governments carried out, that is, to use their buying power politically to establish governments of which they approve, leading ultimately to the virtual subjugation of these countries in South America. I do not elaborate that statement, except to say that we in the State Department could probably document that possibility ad nauseum.

Their whole plan is based on the idea that the buyer has always the position of influence, and that by buying or not buying as they see fit, they will be able to compel the governments involved to do more or less as they like, on condition of economic catastrophe if they do not.

Should that occur, we may very well be in the position where we have to step in and at least provide, so that no country shall be coerced into accepting political arrangements, that is to say, that we have to be prepared to buy and remarket the surpluses, or some considerable part of them. We are not as afraid of that as we might be, because we happen to know that Europe needs those surpluses, but if she can scatter her shots among a series of comparatively weak units it will save a good deal of trouble.

Senator SHIPSTEAD. The theory is that if you bid, then you have to take it at a price because they need it?

Mr. BERLE. If we had a unified pool there, the Axis would have to deal fairly. It then would be commerce, and not politics. I do not think anyone thinks of damming up the flow from South America to Europe.

Senator GREEN. Why does not anyone think of that?

Mr. BERLE. I should say, Senator Green, that it turns really in two areas. As a permanent proposition, of course, I doubt if you could indefinitely dam it up. During the period of a war situation, of course, we could have that as a blockade, and we could hold that position for a considerable period of time.

Senator GREEN. That is what I wanted to find out, because I did not understand your statement that no one would think of that. It seems to me it is very obvious to think of it.

Mr. BERLE. Not as a continuous thing.

Senator GREEN. After the war.

Mr. BERLE. In the event war came, if we wanted to lace in for, say, a generation, or one hemisphere as against another, it might be very difficult to do.

Senator GREEN. I came in late because I just got notice of the meeting. Had you been talking all the time of post-war conditions or war conditions?

Mr. BERLE. We have been rather trying to go over the whole field, beginning with the way this matter came up, and the immediate emergency possibility.

Senator GREEN. Now you are talking of post-war conditions?

Mr. BERLE. We are getting at the point that we may have a long pull ahead of us.

In the fourth place, the bank might have to do things pretty rapidly. In the event it were a short loan, and we were buying surpluses, we would have to have an agency by which to handle the surpluses. The disposition of them would then turn on the point to which Senator Green has just referred, whether you would withhold financing, or whether later forming a pool for the purpose of resale—in either case you would need some such structure as this as the heart of the operation.

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In that connection I might say that the Federal Reserve Board, after very careful study, and to my mind with very great vision, introduced a section into the proposed legislation to implement this, by which the Inter-American Bank might have the cooperation of the Federal Reserve banks in the United States, with the consent of the Board of Governors of the Federal Reserve. Of course, what that means is that really there would be a means by which, in appropriate meature, the American dollar and currency system, under suitable limitations, could be extended throughout the continent as the basis for transactions, thereby giving us somewhat of the stability which has been one of the great factors of the great success of the United States.

Senator SHIPSTEAD. You mean the lack of it?

Mr. BERLE. We have at least one currency throughout a very large State, and of course in Latin America you do not have that; you have 20 different currencies.

Senator SHIPSTEAD. I misunderstood you. We had a lack of uniformity, you might say, there has been disparity between the exchanges. The intention is to help build a more steady exchange?

Mr. BERLE. Yes.

Senator SHIPSTEAD. And have a lack of fluctuation?

Mr. BERLE. Yes. That would of course considerably increase the area of open trade within the republics. In older times it would have been rammed down somebody's throat in order to create a dollar block and a pound sterling block. This is really an alternative, to try to create a hemispheric currency which in fact was the other proposal made by the Inter-American Financial Committee. Everybody agreed that if possible it would be well to have a hemispheric currency, but that that currency should be the dollar, because of the strength of the American currency system, and in greater or less degree, and presumably under the wise management of the Treasury and Federal Reserve, paragraph (h) is calculated to implement the convention.

I think perhaps that is enough for the preliminary statement. Perhaps I have talked too much. I should like to add that this is received with a very considerable amount of acclaim in academic circles. Professor Heymann, who teaches finance at Rutgers, has written a book in which he devotes one chapter to the Inter-American Bank. It is interesting to note that in various places it has been regarded as in some fashion revolutionary, but nevertheless perfectly sound in the extension of the principles which we have been gradually endeavoring to point out in the United States.

I believe the commercial banks, after some skepticism, have come to somewhat of the same general idea. It has been rather widely commented on in the Latin-American press. One country, Colombia, has already arranged for legislation so that she could join it at once. It formed the subject of one of the speeches of the Colombian foreign minister in the debates on the Inter-American policy, and it has been pretty widely analyzed, particularly in Argentina and Peru. Today nine nations have definitely indicated that they would like to come in.

Senator SHIPSTEAD. Were negotiations started by the United States?

Mr. BERLE. The negotiation was started in the Inter-American Financial Committee, which is a joint committee. At that point, shortly after the meeting in November 1933, the group were gotten together and listed a variety of subjects which they thought might be of interest for their common economic welfare. On the agenda was the possibility of creating the Inter-American Bank. As I recall, it was put there by Peru, though I am not sure about that.

Mr. COLLADO. It was rather suggested on the part of six or seven countries. Mexico, Colombia, Brazil, Peru, and Uruguay were all interested. Uruguay and Peru had brought it up at previous conferences.

Senator SHIPSTEAD. They were present at the conferences?

Mr. BERLE. Yes. There were 21 members on the committee, and while there was a subcommittee which drafted the convention, the subcommittee followed the Inter-American practice, and agreed that the delegates of any nation which was interested might be accredited. At the final meeting I think 20 out of the 21 were actually present, that being the habit in Inter-American negotiations.

Senator SHIPSTEAD. Those who were not signatory understand the program?

Mr. BERLE. Oh, yes; as a practical matter, many of those who were not signatories were waiting to see whether something was really going to happen.

Senator SHIPSTEAD. I have read this agreement rather hurriedly. The amount of stock to be purchased by each country is shown on page 9, is it not?

Mr. BERLE. Yes.

Senator SHIPSTEAD. Has any amount of stock been allocated to those who are not in as signatories?

Mr. BERLE. Yes. Their allocations will be held for them. When they wish to adhere, they can take up their stock. Under our practice, it has to be an open treaty. We cannot exclude any American republic from joining whenever it chooses, nor would we wish to do so.

Senator SHIPSTEAD. They have all been allocated their pro rata share of stock even though they were not signatories?

Mr. BERLE. Yes. I do not wish to get into the technical end of it, but will leave that to the Federal Reserve, the Federal Loan Agency, and the Treasury. But since we are the richest of the group, obviously we subscribe to the greatest amount of stock. No one wants to be in a position of absolute control.

Senator GREEN. I notice Canada is left out.

Senator SHIPSTEAD. Canada is not a member of the Union.

Senator GREEN. It talks about the "hemisphere" throughout.

Mr. BERLE. Senator Green, I am glad you asked that question. My private opinion is that Canada will have to be included in this and in all hemispheric operations, before very long.

Senator SHIPSTEAD. She ought to be.

Senator PEPPER. Are there any other questions that you would like to propound to the Secretary?

Mr. BERLE. Then if I may, Mr. Chairman, since I have no doubt you will wish to go into the technical questions, and since I know that among others, the Federal Reserve have prepared a very careful analysis of it, if I may, I will leave you in their more competent hands.

Let me apologize for leaving, but I originally set this up for Thursday, when we had all day, and it just happens that as you know by the state of your morning newspaper today we have rather a full schedule down there, and I had better get back and get at it.

In any case, Mr. Collado, who is with us in the negotiations throughout, and Mr. Bernstein, who kindly sat with the inter-American committee on behalf of the Treasury; Mr. Gardner and Mr. Wyatt, who not only have personal knowledge of the treaty but also actual personal knowledge of the various negotiations by which the terms were arrived at, they having sat through them and actually done the final drafting; Mr. Rovensky, of course, who was formerly a vice president of the Chase National Bank, and who has had occasion to examine it quite elaborately from the point of view of the general commercial relations with South America, and from the point of view of the commercial banks, and who I think can testify both in his representative capacity and as an expert; and Mr. Clayton, of course, who is representing the Export-Import Bank, and who will have something to say—I leave you in their more competent hands.

We thank you for your kindness.

Senator PEPPER. We thank you very much, Mr. Secretary.

Mr. BERLE. I leave you in more competent hands than mine.

Senator PEPPER. I doubt if that would be possible, whomever we called, Mr. Secretary. But we will accede to your modesty, at least.

Now, who is the next witness?

Mr. BERNSTEIN. Senator, I know that so far as the Treasury is concerned we have nothing to add to what Mr. Berle said in his preliminary statement. We would be available to answer any questions to the extent of our abilities.

Senator PEPPER. I do not know about the attitude of the other gentlemen who are present. You are speaking for the Treasury?

Mr. BERNSTEIN. Yes, sir.

Senator PEPPER. The next witness, I think, now, is Mr. Rovensky, of the National Defense Council.

STATEMENT OF JOSEPH C. ROVENSKY, OFFICE OF COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS BETWEEN THE AMERICAN REPUBLICS

Senator PEPPER. Give your name and the position you occupy, please, and then make such statement as you care to make, Mr. Rovensky.

Mr. ROVENSKY. I am Joseph C. Rovensky, Office of the Coordinator of Commercial and Cultural Relations Between the American Republics.

Previous to my coming to Washington I had not followed the preparation of the legislation for the proposed inter-American bank. After I came to Washington last fall—by that time the legislation had been prepared—I made a study, independently, in the office of the coordinator, of the proposed bank and the legislation.

I came to the conclusion that the institution as conceived would be a very useful additional agency for promoting commercial relations within the Americas. In order that the banking fraternity would be informed, we had several informal meetings, described by Mr. Berle, and at that time we invited the officers and directors of the Bankers Association for Foreign Trade to come to Washington. They spent a day with us discussing the bank, and at that time they passed a resolution that I would like to put in the record. Shall I read it?

Senator GREEN. Yes; that is the main purposes, so that we might know what is happening.

Mr. ROVENSKY. It reads:

> We, the officers and directors of the Bankers Association for Foreign Trade, have considered the establishment of the Inter-American Bank, and the suggested enabling legislation. We believe that the establishment of this institution will serve as a useful instrument for the purpose of promoting hemispheric solidarity and the extension of mutual trade between the American republics.
>
> We recommend, however, that the activities of this institution should properly be confined to providing banking facilities where sufficient banking facilities do not exist, and that this institution should only supplement, and in no way encroach upon, existing adequate private banking facilities.

Along at the same time it became evident that the banking fraternity was not entirely pleased with the institution as proposed, and after a number of meetings we came to an amicable settlement of any differences, by agreeing that the State Department send the letter to Senator George that Secretary Berle referred to.

Senator SHIPSTEAD. Now, just what did they mean by that? You were in conference with them. Did they fear that this bank would start branches in the various countries in competition?

Mr. ROVENSKY. The main point was on the question of whether such branches would or would not do certain banking, without a Government guaranty, and it was agreed that it was not the intent to encroach upon private banking, and that the American director after the bank was organized would press for that change in the bylaws.

Senator SHIPSTEAD. The intention was, as I understand it—I may be wrong—that this should be a central bank with a general clearing house for these countries that are signatories, who become parties to the treaty.

Mr. ROVENSKY. That is true, but the charter provisions and the bylaws will make possible many types of banking.

Senator SHIPSTEAD. I see. There may be someone who, when we come to that, can go into it. I do not care to delay you, if someone else can speak for that later. Whoever follows you may be able to give us that information.

Mr. ROVENSKY. Yes; Mr. Colloda can do it.

Senator SHIPSTEAD. He can perhaps give us that more extensively; or, if you can enlighten us on that, and if you do not have time to finish before 12 o'clock, you could come back.

Mr. ROVENSKY. I spent most of my time studying this bank from an over-all picture as it would fit into the scheme of things, and whether it would be a useful vehicle, and while doing that I put down about 17 or 18 points that I thought were favorable factors.

Senator SHIPSTEAD. Have you got that there?

Mr. ROVENSKY. Yes.

Senator SHIPSTEAD. Then I will not interrupt.

Mr. ROVENSKY. They are not all, I would say, points, but they all throw certain shadows.

The first one, for instance, was that it was quite evident that the desirability of an inter-American bank had been considered for many years, and that there was a strong desire in Central and South America in many areas for the establishment of such an institution.

Secondly, our Government had already signed the convention for participation, and therefore we were committed to a great degree, and to negative it now would be misunderstood in South America, and cause an unfavorable reaction; and thirdly, that the establishment of such an institution should promote sound financial and currency methods in the South American countries. It would set the pace.

Fourth, that it would serve as a great instrument for developing inter-American relations, as it would mobilize, for the study of hemispheric economic and finance problems, the best thought and experience of the Americas. It would supplement in part the Export-Import Bank's activities, making possible a partnership operation instead of the United States always being the lender and the others always being the borrowers.

Senator GREEN. Excuse my interruption there. How far are the jurisdictions of these two institutions strictly defined?

Mr. ROVENSKY. They are in quite different areas. My personal feeling is that the American participation should be very close to the Export-Import Bank.

Senator GREEN. I mean, can questions of jurisdiction arise?

Mr. ROVENSKY. I suppose they could, but I would not fear it.

My next point, No. 7, is that it would provide an instrument through which surplus-commodity problems and all commercial problems could be considered as joint problems, and that the bank could handle loans in local currencies, where the Export-Import Bank at present cannot do so, and would also be helpful to the United States business in areas where banking facilities are limited, and for intermediate term loans in local currencies.

Ninth, that it would be useful for economic surveys and studies for long-range development of natural resources.

Tenth, that it would be useful to guide American and foreign investment in the Americas.

Eleventh, that it would be an instrumentality for promoting travel.

Senator GREEN. Would that mean private investments?

Mr. ROVENSKY. Yes; it could guide and work along with them.

Senator GREEN. Does that include protection?

Mr. ROVENSKY. In the sense that it would make toward more careful consideration; yes.

Senator GREEN. I do not mean "protection" in that sense, but in the sense that the Government undertakes to guarantee the safety of the private investment.

Mr. ROVENSKY. It would depend on the final terms of any loan in which private investment might join.

Senator GREEN. That is, it could?

Mr. ROVENSKY. It could; yes, sir.

And I thought it could be made an instrumentality for improving the defaulted debt situations of the presently outstanding defaulted debts.

Senator SHIPSTEAD. Is it the intention that the separate Government of the United States should guarantee a private loan to the bank, or that the bank might guarantee it?

Mr. ROVENSKY. Oh, it would be the bank.

Senator SHIPSTEAD. It would be the bank?

Mr. ROVENSKY. Oh, yes. This bank would have no authority, no ability to bind our Government.

Senator SHIPSTEAD. That is what I wanted to know.

Mr. ROVENSKY. And also, that the institution might be useful in working out means of service and payment of dividends of American capital already invested.

Next, that it might promote uniform banking, shipping, insurance documents and business procedure and commercial law practices, and be useful in the arbitration of disputes, in the commercial areas, and that such an institution would be of value in case of war, in monetary and trade areas, such as the control of the withdrawal of funds, supervision of payments, unfair trade practices, warehousing of surplus commodities, the assembling of necessary commodities, preclusive buying.

Senator GREEN. In the use of the term "war" you do not limit it. You mean war between nations of the Western Hemisphere and those outside the hemisphere, or any war, including those between nations in the Western Hemisphere?

Mr. ROVENSKY. I must confess I was only thinking of war in which we are involved.

Senator SHIPSTEAD. Or a South American country?

Senator GREEN. This is an international pact between all the American republics. How can we have any special privileges as one of those republics?

Mr. ROVENSKY. It would depend on the cohesion and the cooperation of the participating nations in this bank. If we were all for one point, there would not be any trouble. In case some of them did not feel the same way that we did, of course, possibly the institution principles could not be used.

Senator GREEN. But to go back to my question, which was, when you used the word "war," "in case of war," did you refer to war between a nation in the Western Hemisphere and a nation outside the Western Hemisphere, or did you also include war between nations in the Western Hemisphere?

Mr. ROVENSKY. I meant a war in which our country was involved as against some European power, where the theater of the war might to some degree be transferred to the Americas.

Senator SHIPSTEAD. In the event of what?

Mr. ROVENSKY. In the event that some of the war might be in this hemisphere, the theater of it possibly being here.

Senator GREEN. You are looking at it from the point of view of this country alone?

Mr. ROVENSKY. Yes. I must confess that I was looking at this to a great degree from a selfish standpoint.

Senator GREEN. Yes. I just wanted to get the point of view from which you made the statement.

Mr. ROVENSKY. But I do believe that it would be a useful instrumentality for all of the governments that would participate in this. I do not think that we are motivated by any selfish motives.

That is the sum and substance of the statement I had to make.

Senator PEPPER. Thank you, Mr. Rovensky.

Are there other witnesses present who wish to be heard at this time?

Mr. COLLADO. Mr. Chairman, may I suggest, I think that most of the rest of us, here—Mr. Bernstein, of the Treasury, Mr. Gardner and Mr. Wyatt, of the Federal Reserve—had been asked to attend primarily to answer the more specific technical questions, should the detailed provisions come up.

I do not believe that at this time either the Treasury or the Federal Reserve representatives had planned on making a formal statement. They have indicated that they subscribed to Mr. Berle's general remarks.

Senator PEPPER. Are there any other affirmative statements that anyone present desires to make?

Mr. COLLADO. I think perhaps Mr. Clayton might wish to say something.

Senator PEPPER. We will be very glad to hear you, Mr. Clayton.

STATEMENT OF W. L. CLAYTON, DEPUTY FEDERAL LOAN ADMINISTRATOR

Senator PEPPER. Just state your name, your position, and such matter as you may care to bring to the committee's attention, Mr. Clayton, please.

Mr. CLAYTON. My name is W. L. Clayton. I am Deputy Federal Loan Administrator. I merely want to indicate the interest and approval of the Federal Loan Agency in the proposed legislation, Mr. Chairman.

We approve the establishment of an inter-American bank as proposed here in this bill. We think it would accomplish a very useful purpose. I can practically adopt all of the reasons in favor of the bank that have just been stated by Mr. Rovensky as my own.

That is all I have to say.

Senator SHIPSTEAD. What is the Federal Loan Agency?

Mr. CLAYTON. The Federal Loan Agency is the agency of which Mr. Jesse Jones is the Administrator.

Senator SHIPSTEAD. You mean the R. F. C.?

Mr. CLAYTON. The R. F. C. and all the subsidiaries.

Senator SHIPSTEAD. The Export-Import Bank?

Mr. CLAYTON. And the Export-Import Bank.

Senator GREEN. There is one question I would like to ask—whether to any extent this new institution would duplicate the work of existing agencies?

Mr. CLAYTON. I do not think so, Senator Green. It would be my hope that in time, so far as Latin America is concerned, or let us say any other American republics, the Inter-American Bank would take over the functions of the Export-Import Bank. It will take some time for the bank to do that.

Senator GREEN. For a while then there would be a duplication of jurisdiction?

Mr. CLAYTON. I think not, Senator Green, because as the Inter-American Bank became organized and the management perfected and the branches established, I think it would take over the functions of the Export-Import Bank, and there would not be really any duplication meantime.

Senator GREEN. My experience is that the head of any Government agency is always reaching out for all the power he can get and claiming all the jurisdiction in sight, and if the language of the legislation makes it possible for him to claim it, he will. In the language of the act is there a possibility of duplication?

Mr. CLAYTON. There is a possibility; yes, sir. I do not think it will work out in that way, because I think that the Export-Import Bank would be very glad to withdraw as the Inter-American Bank begins to operate to take up and perform functions and services which the Export-Import Bank now performs.

Senator SHIPSTEAD. Particularly in the Western Hemisphere?

Mr. CLAYTON. Altogether. I meant my statement to be confined to the Western Hemisphere, or the Latin-American part of it.

Senator SHIPSTEAD. I think it would be a great mistake to have the two functioning permanently.

Mr. CLAYTON. Yes, sir.

Senator SHIPSTEAD. I think this bank, if it is made a real bank, should take over all the functions of the Export-Import Bank in the Western Hemisphere.

Mr. CLAYTON. That is what I think.

Senator GREEN. That is the hope.

Senator SHIPSTEAD. It should. The Congress can enact legislation.

Senator GREEN. My point is that if you enact legislation there may be conflict of jurisdiction, and each will claim the power if the limitations are not defined.

Senator SHIPSTEAD. It seems to me that would be entirely for the United States to handle.

Mr. CLAYTON. Certainly, it would.

Senator GREEN. Well, we are the United States, are we not.

Senator SHIPSTEAD. Yes; but we could not do that through this treaty. It would be up to our own Government to control the Export-Import Bank, to see that it did not interfere.

Senator GREEN. Yes; but if we sign a treaty giving it certain powers, then I do not think we can withdraw those powers without breaking the treaty.

Senator SHIPSTEAD. With this bank?

Senator GREEN. Certainly. If the bank is created and established under the treaty, the bank has certain powers. How can Congress withdraw those powers without breaking the treaty?

Senator SHIPSTEAD. What I meant was that we have sold jurisdiction over the Export-Import Bank. We can withdraw that power without breaking a treaty.

Senator GREEN. Yes; we could, that. We could not, the other way, though.

Senator SHIPSTEAD. I did not make myself clear. No, I agree with you.

Senator GREEN. The possibility may be remote, but you do not take into consideration the situation that I visualize, and that is where one agency of the United States is claiming power which another agency of the United States also claims. The agent that represents the United States in the bank might want to claim that jurisdiction, whereas the agency represented by the Export-Import Bank might want to claim it, too. That is my point.

Mr. BERNSTEIN. The directorship of the Export-Import Bank is very comparable to that group of governmental agencies that will instruct the American representative on the Inter-American Bank.

Senator GREEN. Where is the provision for that?

Mr. BERNSTEIN. You see the American representative of the bank will be under the jurisdiction of the Secretary of State, Federal Loan Administrator, Secretary of the Treasury, and the Federal Reserve Board.

Senator SHIPSTEAD. I am not sure I get that. You mean that directors of the personnel and machinery of the Export-Import Bank would have some supervisory power over the American representatives?

Mr. BERNSTEIN. Not quite that way. There will be an interdepartmental committee, as indicated on page 19, section 202, of the proposed bill.

Senator SHIPSTEAD. The two would be in fact independent of each other, would they not?

Mr. BERNSTEIN. That is true, but the American representative on the Inter-American Bank will be under the control of this committee consisting of the Federal Loan Administrator, the Secretary of State, the Secretary of the Treasury, and the Federal Reserve Board. Now, your Export-Import Bank is a part of the Federal Loan Administration, and on the board of the Export-Import Bank in addition to the Federal Loan Administration control is the Secretary of State and the Secretary of the Treasury.

Mr. COLLADO. Senator Green, you referred earlier to the fact that while the Export-Import Bank as such would be subject to the control of the Congress the Inter-American Bank would arise from a convention from which it would be difficult to withdraw. It is true that the bank itself would be the subject of the convention, but the control of the actions of the United States director on the bank is at all times subject to an act of Congress. This section we are now quoting is from a draft of the enabling legislation, so that the Congress would always have control.

Senator GREEN. Yes; I think that answers my question.

Senator SHIPSTEAD. But I assume the directors of the bank from other countries would be to some extend under the control of their state department, too.

Mr. COLLADO. Of course. Our control, the control of our Congress, would flow down only to the use of our own number of shares, not to the shares of other countries.

Senator GREEN. Yes.

Senator SHIPSTEAD. There is danger of political control getting into it, but I do not see how you can avoid it. If you had a really independent bank, a real bank with real personnel to operate it, I would prefer to see it that way, having it run without any political influence from any country.

There has been more or less politics in these South American loans, and a good deal of anarchy and a good deal of black-jacking. Under that kind of control it is impossible to have either a stable economy or a useful economy.

Senator PEPPER. Are there any other questions, gentlemen?

We thonk you very much, Mr. Bernstein.

Mr. COLLADO. I have one or two very brief points, perhaps.

Senator PEPPER. Yes; go right ahead.

STATEMENT OF EMILIO COLLADO, ASSISTANT CHIEF, DIVISION OF THE AMERICAN REPUBLICS, DEPARTMENT OF STATE

Mr. COLLADO. There was one question raised regarding the guaranty of the United States Government on operations of the bank. The bank will operate in general either with governments or with governmental guarantees, but in the case of the United States Government that means that we would be putting on the Government guarantee, only in the rather unlikely event that we borrowed money from the bank. It would be the guarantee of the borrowing government, not the United States Government, that would be placed on it.

Senator GREEN. The United States Government is not going to be put into the position, directly or indirectly, of guaranteeing private loans?

Mr. COLLADO. Oh, no.

Senator GREEN. Or private investments in other countries, or in this country?

Mr. COLLADO. No. The only participation of the United States Government is insofar as it subscribes to capital. Beyond that it is not going to be in any position of responsibility.

Senator PEPPER. And as directors on the board, in the management of this bank?

Mr. COLLADO. Yes, but I mean it will have no financial responsibility beyond that. That was one point.

The other point I thought I might make a little more comment on is the question of what were the objections of the banking fraternity, and what this letter to Senator George proposes. As I understand it, the objections of the banking fraternity all centered on the one point, their business is primarily short-term commercial business involved in 30- and 90-day paper, connected mainly with foreign trade, exports and imports, facilitating the shipments between countries, and it is in that very short-term private field that they did not feel that a bank of this sort should enter into, and we had never intended that, I believe.

I think that the message which the President sent and the memorandum of the State Department attached to it made that quite clear. The small amendment proposed in that letter to Senator George would limit short-term operations where there might be this conflict with the commercial banks, to operations in which a banking institution participated.

We would not compete with such banking institutions. We might rediscount paper in which a banking institution was already involved. In other words, in that short-term field the Inter-American Bank would not be the first bank to deal with the actual importers and exporters. It would not get into that field.

Since that was their primary objection, when that change was agreed upon they seemed entirely satisfied. Isn't that right, Mr. Rovensky?

Mr. ROVENSKY. Yes, sir.

Senator SHIPSTEAD. If we amend this treaty, I expect the other countries will have to, too.

Mr. COLLADO. That is in the bylaws. It is not in the treaty. The bylaws are subject to amendment by the board of directors when it is organized.

Our proposal is that the American director would be directed as soon as the bank is established, and so forth, to propose that amendment to the bylaws.

Senator GREEN. Of course, it might be voted down.

Mr. COLLADO. The likelihood is that they would not, in practice. He could conceivably be voted down. If the bylaws were actually amended it would only take a few words in one article to do that.

Senator PEPPER. We thank you very much.

We will recess, then, gentlemen, until 10 o'clock tomorrow morning, and those of you who would find it possible to come back, we would, of course, be very glad to have you come back. If you find yourself tied up in some way or other, we would not want to put you out.

(Whereupon, at 12 m., the hearing was recessed until tomorrow, Tuesday, May 6, 1941, at 10 a. m.)

INTER-AMERICAN BANK

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D. C., Tuesday, May 6, 1941.

The subcommittee met pursuant to adjournment at 10 a. m, Senator Claude Pepper, chairman, presiding.

Present: Senators Pepper (chairman), Green, and Shipstead.

Also present: Bernard Bernstein, Assistant General Counsel, Treasury Department; Emilio Collado, Assistant Chief, Division of the American Republics, State Department; Walter Wyatt, General Counsel of the Board of Governors of the Federal Reserve System; Walter R. Gardner, Division of Research and Statistics of the Federal Reserve Board; Walter E. Trent, economist; and Dr. C. E. McGuire, economist.

Senator PEPPER. Has any one of you gentlemen anything further to offer this morning before we hear Mr. Trent and Dr. McGuire?

Mr. COLLADO. I think there is only one point, Mr. Chairman. Mr. Gardner is prepared to make a very brief statement as to the position of the Federal Reserve Board on this whole matter.

Senator PEPPER. We shall be very glad to hear your statement, Mr. Gardner.

STATEMENT OF WALTER R. GARDNER, DIVISION OF RESEARCH AND STATISTICS, FEDERAL RESERVE BOARD

Senator PEPPER. Please state your name and your position.

Mr. GARDNER. Walter R. Gardner, Division of Research and Statistics of the Board of Governors of the Federal Reserve System.

We have no extended statement, but I should like to make it clear that we have been authorized by the board to state its full approval of the plan that is now being offered.

Senator PEPPER. We are glad to have that statement, Mr. Gardner. Are there any other statements?

Senator SHIPSTEAD. You have no additional statement to make, on behalf of the State Department, Mr. Collado?

Mr. COLLADO. No.; Dr. Berle, I think, covered that yesterday.

Senator PEPPER. Do you have anything else to add, this morning, Mr. Bernstein?

Mr. BERNSTEIN. No; I do not, Mr. Chairman, thank you.

Senator SHIPSTEAD. I had a little more time last night to study this convention. I note that section 206, on page 20, reads as follows:

With the consent of the Board of Governors of the Federal Reserve System and subject to such regulations and limitations as the Board of Governors may prescribe, each Federal Reserve bank shall have power to act as depositary, custodian, and financial agent for the Inter-American Bank, to establish correspondent relationships with and open and maintain banking accounts for and with the Inter-American Bank, to purchase, sell, and deal in, any obligations of the Inter-American Bank, and to effect for or with the Inter-American Bank any transaction which such Federal Reserve bank could effect if the Inter-American Bank were a member bank of the Federal Reserve System or a bank located in a foreign country.

As I understand it, these banks in fact become a part of our Federal Reserve System; is that right?

Mr. Wyatt. No, sir; they would not become part of the Federal Reserve System, but the Federal Reserve bank would be authorized to deal with them to the same extent as if they were a part of that system.

Senator Shipstead. Do you know how many of these South American banks outside of the United States are private central banks, or are government banks in the sense that our Federal Reserve bank is?

Mr. Gardner. I think the point should be made clear that this applies only to the Inter-American Bank, not to any other banks—the Inter-American Bank, itself.

Senator Shipstead. But other American banks will become members of this?

Mr. Gardner. No. On that point, it will be the governments who will own shares in the Inter-American Bank. The Inter-American Bank will not itself have any member banks.

Senator Shipstead. It will not have any member banks? Then I misunderstood that. Now, here is another question that arose. Provisions are made for membership, and it is provided that the capital stock shall be paid for either in gold or in dollars. In the event of default or withdrawal, as provided for, can they withdraw the gold that they may have paid in?

Mr. Bernstein. It is possible for a country to withdraw.

Senator Shipstead. A withdrawal of the capital?

Mr. Bernstein. When a country withdraws the bank has a right to retain whatever it deems appropriate to secure it against any outstanding liability of the government to the bank; and that liability might arise in a number of different ways.

Senator Shipstead. Will you elaborate on that?

Mr. Bernstein. On page 11, paragraph E, there is this provision:

The shares of stock held by each government shall be security for all the obligations of such government to the bank and shall not be otherwise pledged or encumbered by the shareholder.

That is subparagraph (1). Then (2) and (3) are further provisions, in the event that a government defaults to the bank, the bank can use those shares in liquidating the liability of that government to the bank.

Senator Shipstead. Yes; they can do that. But suppose this Government liquidates its liability and wants to withdraw its capital that it has paid in in gold or in dollars; if they paid it in, partly in gold, can they then withdraw that gold?

Mr. Bernstein. I do not think that point is covered expressly in the documents.

Senator Shipstead. No.

Mr. Bernstein. Presumably if they got paid in dollars, it would be equivalent to their being paid in gold.

Senator GREEN. That question came up in connection with the payment of Panama, and it made a great deal of trouble for years.

Mr. BERNSTEIN. Yes; the question was considered by the committee of experts, and it was rather interesting, as I recall—and you may correct me on it—that the other governments did not question the dollar basis for the whole bank and did not suggest that they have the equivalent of the gold clause, in repayments to them. I think it was a rather interesting compliment to the dollar.

Senator SHIPSTEAD. If they intend to buy the shares with dollars, they would have to buy the dollars.

Mr. BERNSTEIN. Yes; if they did not have the dollars.

Senator SHIPSTEAD. Yes. If they did not have them, they would either have to buy them or borrow them.

Mr. BERNSTEIN. Yes, sir.

Senator SHIPSTEAD. Is there any likelihood that they would have to procure their capital with borrowed capital?

Mr. COLLADO. I do not believe, Senator, if I may answer that, that that has come up in any way at all, as the amounts involved here are relatively small in proportion to the gold and foreign exchange holdings of the majority of these countries. For example, Argentina, $5,000,000—Argentina has $400,000,000 worth of gold and exchange, so that it would not be any problem for them.

Senator SHIPSTEAD. But Argentina is not a case in point.

Mr. COLLADO. That may not be typical, but Brazil, for example, has right now something like $75,000,000. Uruguay has $60,000,000; Mexico has $75,000,000, and so on down the list. You get into smaller ones, but the smaller countries have to put up much smaller amounts.

Senator GREEN. I am afraid I did not understand the answer to Senator Shipstead's question, because I understood the question was, when a nation withdrew, whether it could ask for gold or for dollars. What is the answer?

Mr. COLLADO. That point is not specifically covered, except here, on the bottom of page 11, it says, in each case, "paying to the defaulting shareholder an amount equal to the fair value of such share, as determined by the bank"; so that that is left up to the determination of that bank, what the fair value is.

Senator GREEN. It is in the discretion of the bank to pay it either in gold or in dollars?

Mr. COLLADO. That is not specified. I mean, that is not specifically covered in these bylaws.

Senator GREEN. It would be desirable to have that covered, would it not?

Mr. COLLADO. There is one point I would like to make, Senator Green, if I may. You referred to the Panama case. The Panama case difficulties arose primarily because there was a standard gold clause. It said they would pay the Republic of Panama $250,000 a year, dollars of such and such gold content; and in this there is a very careful avoidance of any content, and it says here, nothing but so many thousand dollars per share "to be paid in gold or in dollars." There is no indication of a gold guaranty or of a gold clause. That is completely out of this document.

Senator GREEN. Unless they said it was implied—they paid it in, in gold, and they would get it out again—and then we repudiated that, just as we repudiated the gold bonds.

Mr. COLLADO. Of course, it would not be a question of the United States repudiating it. It would be the Inter-American Bank.

Senator GREEN. Certainly.

Mr. COLLADO. In which the directors represented all the governments.

Senator GREEN. Yes; in which we are a large stockholder. But my point is, would not the same question come up, or might it not come up?

Mr. WYATT. I do not think it would, Senator, because the question hinges on what is the fair value of the share, at the time. Conceivably the fair value would be something different than par value. If the bank's capital were impaired, the fair value of the shares at that time would be less than the par value.

Senator GREEN. Why, surely. It hasn't anything to do with the value.

Mr. WYATT. If the bank accumulated a surplus, it would be more than par.

Senator GREEN. It has nothing to do with the value. It is a question of the medium by which it should be paid.

Mr. COLLADO. In making the payment, the fair value I think would depend not only on this. It would depend on the medium in which you were going to pay it. If you were going to make the payment in gold of a certain weight and fineness, that would be in itself a part of determining what the fair value was.

Senator GREEN. We made the same claim in connection with the payment of the claim of Panama. We claimed it was perfectly fair, what we did offer them, and they said they preferred the gold to the dollars which we offered them, although we said, "The dollars are the equivalent."

Mr. COLLADO. The point I was getting at is, it seems to me, Senator Green, that at the time you made the decision of what the fair value was, whether you gave it to them in gold or in dollars would depend upon the relationship between gold and dollars existing then.

In the case of Panama the relationship was set up in an old treaty and it had changed during the period of 35 years.

Senator GREEN. Oh, yes; I understand.

Mr. COLLADO. If 10 years from now a country wants to withdraw, and its shares are valued, say, at $10,000,000, if at that time gold is worth $50 rather than $35, or if it is worth $25, you can easily make your conversion at that point, depending on what would give them an equivalent in gold of the dollars.

Senator SHIPSTEAD. Have they the right, then, to demand gold that they paid in?

Mr. COLLADO. That is not specified. It says here, "the price agreed upon between the parties and the board of directors," and it is a question of decision at the time that there is any transfer of shares, just what form they will take it in.

Mr. WYATT. May I invite attention to the provision on page 14, subsection 4B, to the effect that the books and accounts of the bank shall be expressed in terms of dollars. The reference to "dollars" runs all through the bylaws.

Senator SHIPSTEAD. What section?

Mr. WYATT. Page 14, subsection 4B, near the bottom of the page.

Senator GREEN. How does it affect that?

Mr. WYATT. I think that makes it a clear agreement among all the participants that the bank's business will be transacted in dollars.

Senator GREEN. If you put that construction on clause B, then they could not pay in gold.

Mr. WYATT. I think they could.

Senator GREEN. Then if they can, why can they not pay it in gold in return? It applies both ways under that construction.

Mr. BERNSTEIN. Senator Green, the Panama case involved a promise, an obligation to pay, on the part of the United States.

Senator GREEN. Certainly.

Mr. BERNSTEIN. The question was, what was the obligation.

Senator GREEN. Certainly.

Mr. BERNSTEIN. The current situation involves stock, which is no promise but merely an equity, and, as Mr. Collado says, it is a question of value.

Senator GREEN. The stock itself is not a promise, but the clause in the bylaws is.

Mr. BERNSTEIN. Which provision?

Senator GREEN. That they can withdraw. That is not a necessary incident of stockholding, but it is an incident of a right that is created by the bylaws.

Mr. BERNSTEIN. When a country withdraws, Senator, and it gets the value as indicated in the bylaws. The question of the gold clause does not arise in determining the value of an equity.

Senator GREEN. It does not arise. The point is whether it can arise. Suppose a nation pays it in gold, and says, "Now, the bylaws give us the right to withdraw, and after you have taken enough for our debts, if we have any, we are entitled to the balance. Now, we would like what we put in."

Mr. COLLADO. Of course the point is, I think, Senator Green, that what they do is, they buy a share, going into the equity of the whole bank, and they do not just deposit gold in the bank. They are buying a share in the bank.

Now, when they withdraw, that government can get the fair value of that share, less any obligation.

Senator GREEN. I am asking for information. What is the significance of the reference to gold?

Mr. COLLADO. That, I think, is only so they can deposit in gold if they want to. They can make the deposit in gold, if they want to.

Senator GREEN. It works both ways. Suppose they say, "We would like to have our deposit back"?

Mr. GARDNER. It is not a deposit.

Mr. COLLADO. Perhaps that is not the correct conception. They can buy the share with gold or dollars.

Senator GREEN. What is the significance of putting in the word "gold," unless it has some meaning?

Mr. BERNSTEIN. I believe the meaning of it was that if any of the countries did not have dollars but had gold, since the bank would be interested in getting gold as distinguished from any other forms of assets or currency than dollars or gold, it was perfectly willing to accept the payment of the subscription in that term.

Senator GREEN. Then there is a distinction between gold and dollars, and I suppose the depositor wishes to get back his deposit, or whatever you choose to call it instead of "deposit."

Mr. BERNSTEIN. Senator, it is not a deposit, I assume. It is shares of stock.

Senator SHIPSTEAD. It is the buying of shares of stock.

Mr. BERNSTEIN. It is a promise in no sense at all, and in that sense it seems to be it is quite distinguishable from the *Gold Clause* cases or the *Panama* case.

Senator GREEN. I understand that it is not on all fours, but as far as creating trouble between us and Latin-American countries it seems to me it is open to the same objection.

Mr. COLLADO. Senator, I think a couple of other points could be made in that connection. In the first place, in the negotiating of this, which of course is handled with a group of other countries—I mean, one representative of each—they all agreed after some discussion, but there was definite, unanimous agreement of all of them, that the bank's accounts should necessarily be handled in dollars. Dr. Berle touched on that yesterday in his statement when he made the point that there was some discussion whether or not there should be a plan for a new currency unit, a new Inter-American Bank currency unit, and all the other countries said "No; the dollar is obviously the unit we want to use," and they made that clear that the accounts should all be in terms of dollars.

Now, there is one further thing I would like to stress in connection with that question. This is the bylaws, not the convention.

Senator GREEN. Yes; I understand that.

Mr. COLLADO. And the bylaws are subject to amendment by the board of directors. This is the initial directive to the board of directors.

Senator GREEN. I understand that.

Mr. COLLADO. And those provisions if they should become in any way troublesome can be amended. It is not like a convention that requires unanimous agreement.

Senator GREEN. I should say the time to amend them is before the trouble arises, rather than afterward.

Mr. COLLADO. I do not believe there is anybody who feels there is any question of trouble there.

Senator GREEN. If it is purely a question of paying in dollars for stock rights, I do not see any more reason for putting in "gold" here than in a subscription for any other corporation. They can always use their gold to buy the dollars with which to pay for the stock, and then it is a separate transaction; but when you provide that they can pay in in gold it seems to me there is some other implication.

Mr. BERNSTEIN. Their ability to realize dollars with gold is entirely within the will of the United States, and it might be unfair to ask them to be subject to our will in their ability to pay for the stock. Of course if we do not buy the gold, which we have been doing, they cannot get dollars for their gold.

Senator GREEN. If that is the answer, then why is not the reverse true, when you come to paying them back?

Mr. BERNSTEIN. The reverse, in what sense?

Senator GREEN. In the sense that if there is some disadvantage in making them subscribe in dollars in the first place, why is it not some disadvantage in paying them back in dollars, in the reverse, when they withdraw?

Mr. BERNSTEIN. The only question would be from their point of view, and they have not raised it. The first sentence of section 2A on page 10 says "The capital stock shall be expressed in United States dollars." As Mr. Wyatt points out, the accounts are kept in dollars throughout, and we talk in terms of dollars, and in disposing of the stock it is a question of value rather than a question of their promise to pay any fixed amount.

Senator GREEN. It is not a question of value. Of course, I understand your point is it is not a question of value, it is a question of convenience; therefore, if it is inconvenient for them to subscribe in dollars, we let them subscribe in gold, is that it?

Mr. BERNSTEIN. From the point of view of their subscription it may be a matter of convenience. It may also be that dollars are not available to them by selling the gold, or that they do not want to pay a charge of a quarter of 1 percent.

Senator SHIPSTEAD. Would you anticipate that they would have difficulty getting dollars if they had gold to sell for dollars?

Mr. BERNSTEIN. I would not anticipate it in the slightest, but I can see from their point of view, their ability to get it is entirely dependent upon the will of the United States.

Senator GREEN. Then if that is true, why is not the reverse true, that when they come to be paid by the bank when they withdraw, there is a difference in their minds between gold and dollars?

Mr. BERNSTEIN. The reverse might be true if they were concerned about what they could do with dollars when they got dollars; but they, like the many millions of others who hold dollars, are not concerned about their inability as a matter of right to get gold for the dollars.

Senator SHIPSTEAD. Here is the reason I asked the question. There is a certain value placed upon gold, that may be changed, and may not; but certainly the value of the dollar may change, and if and when one of these countries wanted to withdraw their capital, having paid it in in gold at a certain fixed value, and supposing they did not want to take it in dollars because the value of the dollar had gown down, is there not a chance that a controversy might arise?

Mr. COLLADO. I think, Senator, that the answer to that is that the actual assets of the bank of this nature when it is a going concern will consist of dollars and perhaps some gold, some silver, and then a lot of other currencies, because it may make loans, so many mililons in Brazilian milreis, and so many in the Argentina peso, and a lot of other things. If a considerable proportion of its assets are in United States dollars, and the dollar goes down for one reason or another, in a sense you may say that the value of the assets will go down also, and the bank would not be in a position to make payment of gold to the people who bought. It would not want to be in that position.

Senator SHIPSTEAD. Then if a country pays in gold, we will say, at a value of 100 cents on the dollar, if the dollar and the gold value are on a par at the time, and they then want to withdraw, the stock may have increased 15 percent in dollars and the share would be worth $115, but gold at the time might be worth $150.

Mr. COLLADO. The bank would pay $115, or at best the equivalent in gold of $115.

Senator SHIPSTEAD. Yes. They would not pay the full value of the gold.

Mr. COLLADO. No. It is the dollar which is the unit of account in all this whole transaction.

Senator GREEN. Do you not think there is a little inconsistency between that authorization for payment in gold and the general scheme of the bylaws?

Mr. COLLADO. In practice, I do not think that there is any difficulty at all.

Senator GREEN. I am not talking about practice, I am talking about the point of view of good drafting.

Mr. COLLADO. I think the central banks of South America, who would actually have to pay the money—because in most cases the governments would probably have to get the money from their own banks—have a large proportion of their assets in gold rather than in dollars—usually 85 percent or 75 percent, or something, and I think they just felt that way about it. They drafted it. We did not do the drafting.

Senator GREEN. Then the criticism of poor drafting would not apply to you but to them; but the criticism might apply just the same.

Mr. COLLADO. But these people were bankers, and a half dozen members of this drafting group were central bankers and so forth, and they felt, "Well, we have dollars; it might be more convenient," as Mr. Bernstein said, "for us actually to ship gold than to convert it into dollars."

Senator GREEN. Then when it comes to withdrawing, they might say, "Well, it is more convenient for us to have the gold than the dollars."

Mr. COLLADO. That same privilege they do not have, that is all. That is really the answer. They do not have the privilege. If they are to get gold, it is only by agreement with the bank. The bank can pay them a fair value in any particular kind of currency it wants to, and that is by agreement with these people. There is no specification.

Senator GREEN. You think that is clear?

Mr. COLLADO. It says here, "at a price to be agreed upon between the parties," provided in section F, page 12.

Senator GREEN. But it does not say in gold or dollars.

Mr. COLLADO. It does not say anything. It says it is a price to be agreed upon.

Senator GREEN. Yes.

Mr. COLLADO. And the price I think includes the monetary unit as well as the number of whatever units it is that are to be paid.

Senator SHIPSTEAD. What would the bank do with this gold? Is it the intention to buy and sell gold in this bank?

Mr. COLLADO. The bank is authorized to buy and sell gold and silver and any of the foreign currencies—dollars as well. That is provided in section (5), page 16.

Senator SHIPSTEAD. I will take your word for it. It takes time to go through it. I assumed that you were better acquainted and more familiar with the provisions that I am; therefore, instead of taking up a lot of time, there are certain questions I would like to ask.

I understand that the bank is also to issue currency.

Mr. COLLADO. No; the bank is not empowered to issue its own currency. It is not a note-issuing authority.

Senator SHIPSTEAD. It has authority to buy and sell gold?

Mr. COLLADO. Yes.

Senator SHIPSTEAD. But whether or not it will do so will be left entirely out of the plan?

Mr. COLLADO. It is at the discretion of the board of directors.

Senator SHIPSTEAD. I am very much interested in the possibility of stabilizing these currencies. I think it is very important. Some effort has been made up to this time to help out these currencies. I assume that has been done through the stabilization fund. Has that operated in South American countries?

Mr. BERNSTEIN. We made stabilization arrangements with Argentina and with Brazil.

Senator SHIPSTEAD. To what extent have loans of the Export-Import Bank had to do with stabilization? Loans have been made, have they not?

Mr. COLLADO. That is correct. I think, perhaps, I can answer that. The Export-Import Bank has entered into a number of mostly rather small transactions with countries, with the central banks of those countries, most of them designed to help in leveling out these sharp fluctuations in exchange. They have entered into such arrangements of very small magnitude with Paraguay and Nicaragua and Costa Rica; of slightly larger magnitude with Uruguay and Colombia and fairly important arrangements with Argentina and Brazil, and one with Peru. Those are all of the countries with which they have done that sort of thing.

Senator SHIPSTEAD. These transactions evidently have not done as much as it is hoped to accomplish under this arrangement; is that it?

Mr. COLLADO. There is a little difference, I think. The Export-Import Bank arrangement has been evidently of a rather short-term or temporary character, to try to tide over a particular depression in the exchange situation of a country, and they are to be repaid in dollars. All they can do is level out fluctuations in the exchange rate of the country. They cannot permanently correct it in themselves.

I think that is a point we ought to make clear about this whole proposal as now contemplated. It is not felt that this bank can of itself stabilize all the currencies in a rigid pegging arrangement between the dollar and each currency. The history of the currencies of colonial and raw-material-producing nations is that they are subject to extreme exchange pressure whenever there is a world depression. The prices of their exports collapse, whereas their imported goods remain more or less constant in price. The net result has been, if you study the history of exchange rates in that type of country, a steady decline over 100 to 200 years.

Senator SHIPTEAD. We had an experience of that after the World War making loans.

Mr. COLLADO. Yes.

If you take the Brazilian currency, for example, it is a very small fraction now of what it was in 1850, and the same thing is true of practically all such currencies. Now, I think the feeling is that the only way you can eliminate that situation permanently is by improving the broad economic situation of the countries by diversifying their structures so they are not dependent upon the exports of few products.

Take Chile for example, 80 percent of its exports are copper and nitrates. A year ago it looked as if its nitrate and copper markets were completely gone, due to the fact that the European markets were lost, and the Chileans felt themselves in a position where they just would not have any foreign exchange and they would have to put on the most severe restrictions, or their currency would go to pieces. As a matter of fact that has been very abruptly changed by our defense necessities. We are buying their full copper production and some of their nitrate and we are paying them the dollars that they need and the exchange is now quite strong.

Up to now it has not been deemed feasible to attempt any system that would permanently peg all that structure of exchange rates. It was attempted in the twenties by public privately floated loans in considerable measure, and most of the currencies collapsed, as we know. Argentina and several other countries held their currencies, used up most of their gold and foreign exchange, and then suddenly had to let them fall.

Senator SHIPSTEAD. I have an idea; I want to know what you think about it. The best way to stabilize commerce, to encourage commerce and transactions between these countries would be to in some way stabilize the currency and therefore exchange. Was there discussion at the time, of having this bank be a bank of issue, with a stated currency, a convertible currency, so it would always have a certain fixed value in relation to something, anchored to something, a currency that could be used by all these countries whose international transactions are not very large?

Mr. COLLADO. There was quite a little discussion of that, and I think that it is rather a complicated story which I think some of these other people present could express better than I can. The answer is, however, that within the United States we have a stable currency. We have a complete freedom of barriers to capital movements between one part of the country and another. We have a freedom of movement of goods from one part of the country to another.

Senator SHIPSTEAD. At least it is uniform throughout the country.

Mr. COLLADO. Yes.

Senator SHIPSTEAD. Even if it is not stable in purchasing power.

Mr. COLLADO. What I mean is, the exchange rate is a reflection economically of the balance of payments of the country—its exports, imports, interest, dividend remittances, its shipments and payments, and its actual inflow and outflow of capital, short and long term. As was the case of most of the Latin-American countries following 1929 and 1930, the value of their exports dropped very greatly because the prices and markets generally collapsed, while they had the necessity to continue importing a lot of things because, unfortunately, these countries import a great percentage of their necessities. In the past they have produced at home very little, and they also had heavy investments of bygone days that required considerable interest payments and remittances, investments both in Government bonds and in public-utility companies, railways, and so forth.

In a situation like that, very frequently it happened that the dollar out-payments were bigger than the dollar in-payments, and they just did not have enough dollars; and faced with that situation the only thing they could do was, first of all, to export their gold to make up the difference. They used their gold, and when they ran out of their gold the only thing they could do was to block exchange or let the exchange rate decline markedly, the purpose of that being on the one hand to encourage exports a little bit, and, more important than that, it was to discourage imports.

Either you put on a control and just tell the people they could not import anything, or only limited quantities, or else you by letting the exchange rate drop 20, 50 percent or more make it too expensive to buy something from the United States. An automobile while in Chile used to cost, let us say, 5,000 pesos would jump to 10,000 pesos and people just wouldn't but it. You get the same effect.

Well, the difference between having a currency in the United States and having a currency for all that area down there is that in that area you have 20 different countries with 20 different currencies. You have 20 different customs barriers. You have at least 10 systems of exchange control, which actually prevent capital from flowing freely from one country to the other; and one final point, if I may add: In the United States, the final thing we did in depression years to prevent a collapse, let us say, in one area, is that the Government through its taxing power in effect took funds from the wealthier sections of the United States and moved it to the poorer sections by one means or another, by public-works expenditure or something.

Senator SHIPSTEAD. But that was, of course, under very abnormal conditions, and conditions down there are very abnormal; but it seems to me that if these countries could have a stable unit of value, that this bank could have been empowered to furnish, by making its own currency, and if it was hooked, for instance, to gold or to silver, with a fixed commodity, that they can take in lieu of it, it gives stability and it would be good in every country. It would go at par wherever it is. You would stop this fluctuation. And then is it not possible that the currencies of these other countries would tend to conform to that dollar, or whatever you would call that unit, and possibly for a while they might all use that as their legal tender, or the basis of their legal tender, the basis of their currency?

Mr. COLLADO. I think, Senator, the answer in the first place was that the members of the committee that drafted this, the Latin-American members, felt that the dollar in itself constituted a good firm currency that was recognized as such in all those countries.

Senator SHIPSTEAD. When was this treaty negotiated?

Mr. COLLADO. In the winter of 1939–40. It was completed about a year ago.

Senator SHIPSTEAD. Of course, they are facing a different situation now. We are trying to stabilize unstable currencies, fluctuating currencies. We are hooked and anchored to a currency that fluctuates now and is likely to fluctuate very much more.

Mr. COLLADO. I think the real answer to the second part of your question is in the reasons which I rather poorly attempted to explain.

Senator SHIPSTEAD. We are all a little handicapped; do not worry about that.

Mr. COLLADO. The currency of an individual country would have great difficulty in matching up with any standard because of this balance-of-payments problem I was trying to refer to, and I think the feeling was that you could not have a universal currency unless at the same time you had a system within that whole area somewhat comparable to that which we enjoy within the United States—freedom of movement of capital and of goods; and also this other factor which we have within the United States, the power of the Federal Government to transfer funds in different parts of the country, which it does.

Senator SHIPSTEAD. What I had in mind was this: The currencies all over the world have always been more or less in fluctuation, but there was a hundred years that England with the English guinea was able to conduct trade and was able to do business and stabilize business because other currencies were held and hooked to or in conformity with or in relation to the guinea, and I had the opinion that here was an opportunity to do the same thing for these countries by giving them a stable currency to which they could hook their currencies, and I was hoping that in time it would become a recognized stable medium of exchange internationally within these countries.

Now, I am particularly interested in stabilizing these currencies in order to foster trade, to get away from this fear that currencies are going up or they are going down. There is nothing stable about this medium of exchange, and so there is fear and apprehension in trade; and if we can do anything to stabilize that trade, why, I think that is one of the greatest things that can be done as a matter of defense and as a matter of stabilizing that economy.

We can make loans, as we did after the war. The chances are today that the loans that were made will either not be paid at all or will be paid at a great discount, and, of course, we will have to take the loss. That means it is a subsidy of foreign trade, which cannot go on forever; and we do not know how long this emergency is going to last.

Was this thing discussed at the time of this conference?

Mr. COLLADO. Yes, sir.

Senator SHIPSTEAD. At that time they thought there was going to be no fluctuation in the value of the dollar?

Mr. COLLADO. No; I would not say that. I think they felt that the most practicable approach—I think they all would sympathize with everything you said, and they would all very ardently desire to attain that end; I think certainly everyone here would; but I do feel the committee that considered the matter, which took 6 months for discussion of this matter—it met practically every day and there were very extensive discussions, in addition to which there were innumerable private discussions outside the regular formal sessions—and I think that the committee considered these possibilities, and felt that the use of the dollar as the standard was the most practicable thing that could be adopted at this time.

STATEMENT OF WALTER E. TRENT, ECONOMIST

Senator PEPPER. Senator Shipstead, would you like now to call Mr. Trent or Dr. McGuire?

Senator SHIPSTEAD. Yes. I requested Mr. Trent and Dr. McGuire to be here. Mr. Trent has appeared before this committee on several occasions as an economist.

Senator PEPPER. Yes. Suppose we hear Mr. Trent, then.

Mr. Trent, we will be very glad to hear anything you have to say.

Senator SHIPSTEAD. I thought it would be helpful to have his views.

Senator PEPPER. Yes; we are very glad to have him appear. We are always glad to have Mr. Trent present.

Give your name, please, for the record.

Mr. TRENT. Walter E. Trent.

Mr. Chairman, I have just a short statement that I will present if it is all right with you and with Senator Green and Senator Shipstead.

Senator PEPPER. We shall be very glad to hear from you.

Mr. TRENT. A convention agreement, the proposed charter and bylaws, and the bill to be enacted by the Senate and House of Representatives provide the necessary power for the bank to function broadly in all respects, except the power to issue money.

The two principal functions of a central bank are (1) the power to hold reserves for other banks, and (2) the power to issue money. The Inter-American Bank may possibly have the broad right to issue bank notes, but not to monetize its gold and silver once acquired. The subscribers to the shares of the bank have to pay either in gold or in dollars, and the books and accounts of the bank are to be kept in dollars. The dollar is and has been fiduciary money since 1934. The President has notified Secretary Wallace that he wishes certain provisions of the Gold Act of 1934 to be extended for 2 years after June 30, 1941. These provisions relate to the extension of the stabilization fund and discretionary power to revalue the dollar in terms of gold.

It does not seem to be in accordance with the good-neighbor policy to ask 20 American republics to found their new bank on a dollar which is not convertible to gold and which has no definite direct relationship to gold. The Inter-American Bank will represent a fresh situation with member countries who have ample gold-production capacity and also silver to warrant the adoption of convertible dollars.

The United States has a complicated situation, probably originating with the last war, but aggravated by the boom of the twenties and the panic condition of the thirties. There may be some reason to continue the United States dollar on a fiduciary basis, but it is unnecessary and undesirable to make 20 more American republics part of that situation.

The Federal Reserve System has expressed its alarm to the Congress concerning the critical condition existing today in the United States monetary system. They fear inflation, they fear a further growth of so-called excess reserves, and they submitted for consideration a 5-point program to Congress with recommendations of drastic measures, based on the thoroughly unsound condition of the United States monetary system as they see it. Even if the United States were willing to let 20 other American republics join in to this situation before the corrections are made and the dollar returned to convertible basis, the other American Republics should not be willing to participate in view of a formal report of the Federal Reserve System to Congress, the first four paragraphs of which I wish to call to your particular attention. The special report to the Congress by the Board of Governors of the Federal Reserve System, the presidents of the Federal Reserve banks, and the Federal Advisory Council, is as follows:

For the first time since the creation of the Federal Reserve System, the Board of Governors, the presidents of the 12 Federal Reserve banks, and the members of the Federal Advisory Council representing the 12 Federal Reserve districts present a joint report to the Congress.

This step is taken in order to draw attention to the need of proper preparedness in our monetary organization at a time when the country is engaged in a great defense program that requires the coordinated effort of the entire Nation. Defense is not exclusively a military undertaking, but involves economic and financial effectiveness as well. The volume of physical production is now greater than ever before and under the stimulus of the defense program is certain to rise to still higher levels. Vast expenditures of the military program and their financing create additional problems in the monetary field which make it necessary to review our existing monetary machinery and to place ourselves in a position to take measures, when necessary, to forestall the development of inflationary tendencies attributable to defects in the machinery of credit control. These tendencies, if unchecked, would produce a rise of prices, would regard the national effort for defense and greatly increase its cost, and would aggravate the situation which may result when the needs of defense, now a stimulus, later absorb less of our economic productivity. While inflation cannot be controlled by monetary measures alone, the present extraordinary situation demands that adequate means be provided to combat the dangers of overexpansion of bank credit due to monetary causes.

The volume of demand deposits and currency is 50-percent greater than in any other period in our history. Excess reserves are huge and are increasing. They provide a base for more than doubling the existing supply of bank credit. Since the early part of 1934, $14,000,000,000 of gold, the principal cause of excess reserves, has flowed into the country, and the stream of incoming gold is continuing. The necessarily large defense program of the Government will have still further expansive effects. Government securities have become the chief asset of the banking system, and purchases by banks have created additional deposits. Because of the excess reserves, interest rates have fallen to unprecedentedly low levels. Some of them are well below the reasonable requirements of an easy-money policy and are raising serious long-term problems for the future well-being of our charitable and educational institutions, for the holders of insurance policies and savings-bank accounts, and for the national economy as a whole.

The Federal Reserve System finds itself in the position of being unable effectively to discharge all of its responsibilities. While the Congress has not deprived the system of responsibilities or of powers, but in fact has granted it new powers, nevertheless, due to extraordinary world conditions, its authority is now inadequate to cope with the present and potential excess-reserve problem. The Federal Reserve System therefore submits for the consideration of the Congress the following 5-point program:

1. Congress should provide means for absorbing a large part of existing excess reserves, which amount to $7,000,000,000, as well as such additions to these reserves as may occur. Specifically, it is recommended that Congress—

a. Increase the statutory Reserve requirements for demand deposits in banks in central Reserve cities to 26 percent, for demand deposits in banks in Reserve cities to 20 percent, for demand deposits in country banks to 14 percent, and for time deposits in all banks to 6 percent.

b. Empower the Federal Open Market Committee to make further increases of Reserve requirements sufficient to absorb excess reserves, subject to the limitation that Reserve requirements shall not be increased to more than double the respective percentages specified in paragraph a.

(The power to change Reserve requirements, now vested in the Board of Governors, and the control of open-market operations, now vested in the Federal Open Market Committee, should be placed in the same body.)

c. Authorize the Federal Open Market Committee to change reserve requirements for central Reserve city banks, or for Reserve city banks, or for country banks, or for any combination of these three classes.

d. Make reserve requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System.

e. Exempt reserves required under paragraphs a, b, and d from the assessments of the Federal Deposit Insurance Corporation.

2. Various sources of potential increases in excess reserves should be removed. These include the power to issue 3 billions of greenbacks, further monetization of foreign silver, the power to issue silver certificates against the seigniorage, now amounting to 1½ billion dollars on previous purchases of silver. In view of the completely changed international situation during the past year, the power further to devalue the dollar in terms of gold is no longer necessary or desirable, and should be permitted to lapse. If it should be necessary to use the stabilization fund in any manner which would affect excess reserves of banks of this country it would be advisable if it were done only after consultation with the Federal Open Market Committee, whose responsibility it would be to fix reserve requfrements.

3. Without interfering with any assistance that this Government may wish to extend to friendly nations, means should be found to prevent further growth in excess reserves, and in deposits arising from future gold acquisitions. Such acquisitions should be insulated from the credit systems, and, once insulated, it would be advisable if they were not restored to the credit system except after consultation with the Federal Open Market Committee.

4. The financing of both the ordinary requirements of Government and the extraordinary needs of the defense program should be accomplished by drawing upon the existing large volume of deposits rather than by creating additional deposits through bank purchases of Government securities. We are in accord with the view that the general debt limit should be raised; that the special limitations on defense financing should be removed; and that the Treasury should be authorized to issue any type of securities, including fully taxable securities, which would be especially suitable for investors other than commerciay banks. This is clearly desirable for monetary as well as fiscal reasons.

5. As the national income increases a larger and larger portion of the defense expenses should be met by tax revenues rather than by borrowing. Whatever the point may be at which the Budget should be balanced, there cannot be any question that whenever the country approaches a condition of full utilization of its economic capacity, with appropriate consideration of both employment and production, the Budget should be balanced. This will be essential if monetary responsibility is to be discharged effectively.

In making these five recommendations, the Federal Reserve System has addressed itself primarily to the monetary aspects of the situation. These monetary measures are necessary, but there are protective steps, equally or more important, that should be taken in other fields, such as prevention of industrial and labor bottlenecks, and pursuance of a tax policy appropriate to the defense program, and to our monetary and fiscal needs.

It is vital to the success of these measures that there be unity of policy and full consideration of action by the various governmental bodies. A monetary system divided against itself cannot stand securely. In the period that lies ahead a secure monetary system is essential to the success of the defense program and constitutes an indispensable bulwark of the Nation.

I cite the above report so you will have in mind under these particular circumstances the undesirability of asking friendly nations to participate in what the report describes as almost a potential bombshell concerning our monetary system.

Senator SHIPSTEAD. That is very interesting. When was that report made?

Mr. TRENT. On December 31, 1940, at the end of last year.

Now, I would like to point out particularly that the so-called excess reserves were considered to be a result of the purchase of the gold, $14,000,000,000 of gold, since 1934. The Treasury owns the gold. The banks paid for the gold by merely increasing deposits. The Federal Reserve, as a matter of fact, loaned the Treasury $14,000,000,000 without interest and without any legal right of collection.

The Federal Reserve banks hold gold certificates as evidence of the debt, but these gold certificates are not monetary and are not usable.

The American republics involved in the proposed Inter-American

Bank, independently of the United States, have a current gold production which if utilized as reserves for this Inter-American Bank will form a reserve for convertible currencies which would be ample to support all of the Americas exclusive of the United States, on a sound basis of convertible currencies.

Under this system as I read it, the Federal Reserve does not recognize this bank as a central bank. In this Federal Reserve amendment to the proposed bill they recognize this bank at their will and pleasure as having the power of a member bank, not a reserve bank.

Mr. COLLADO. I call your attention to the language at the end of that paragraph, "bank located in a foreign country."

Mr. TRENT. Yes. Well, there may be only seven banks in the United States or foreign countries, or only about seven banks, that have a right to deposit gold here, with the reciprocal right to withdraw it.

Mr. COLLADO. No; the central banks—the Bank of England, Bank of France, and all those large banks have. That is what you are referring to in this section?

Mr. WYATT. Yes.

Mr. COLLADO. The central banks. There must be 25 of them all over the world.

Mr. TRENT. Is this bank given any specific power to turn gold in to the Treasury and get a gold certificate, and then exchange that gold certificate for gold at their own pleasure?

Mr. COLLADO. I think not. They can hold the gold, itself, however.

Mr. TRENT. They cannot monetize it. They have no power to monetize that gold. They have no power to monetize the silver produced in their own countries. They have no power to handle that gold in any other way than a gold-producing company or an individual. They can sell the gold without recourse to the United States, and have no method by which they can reclaim it.

Now, if this bank is forced to sell its bullion without having the opportunity to retain it as a reserve, and multiply its deposits through loans and investments to 10 times its gold reserve, the bank will turn out to be in my opinion perfectly futile, because its total capital is $100,000,000 only. It is dependent upon deposits from countries and individuals to build up its deposits. If the gold is deposited it will be treated like any currency commodity by shipment to the United States for dollar value. The United States potentially can utilize its reserve value but it is not doing it, therefore the gold is simply lost to the economy of the American continents by sending it here, whereas if left with these 20 American countries its gold reserves being produced currently would soon be quite sufficient for the conversion of all currencies at the pleasure of the owner, and to multiply their deposits to 10 times their gold reserves.

Senator PEPPER. Are there any questions?

Senator SHIPSTEAD. Mr. Trent, I would like to have your opinion upon this. You heard the discussion here this morning. Under the charter could the directors and managers of the bank, those who control the bank, issue currency? They cannot, can they, Mr. Collado?

Mr. COLLADO. Not under the charter and bylaws. The bylaws can be changed. They can issue debentures.

May I make just one point? There is a great scope of the bank's action that was not included at all in Mr. Trent's statement, and that is the one that I suspect in the long run will be the most important. That is what we call for want of a better term, long-term development projects. I think we are all agreed that the Latin-American countries are never going to get out of this situation they are in, unless their resources are properly developed and industries properly established in those countries.

Now, one big function, if you read the purposes and powers of this bank, is just that type of operation—long-term credits. A central bank accepts paper of 90 days or 270 days naturally for rediscount. These operations may be 5-, 10-, 15-, or even 20-year projects, and the funds which they will use for that purpose presumably will be funds obtained in part by deposits, but largely by the sale of long-term debentures. It is long-term industrial financing, for example.

Now, this bank proposes to do a lot of things other than to act simply as a bank for intrabank settlements.

Senator SHIPSTEAD. Is it the intention that it shall handle these loans in place of the Export-Import Bank, in time?

Mr. COLLADO. I think that point was brought out yesterday in discussion. There is a great field.

Senator SHIPSTEAD. Yes; I think it was.

Mr. Trent, do you think that the sooner we can make a convertible currency, a stable exchange, in these countries, the more desirable it would be?

Mr. TRENT. Yes, sir. I do not believe they have any chance of stabilization or a normal economy without convertible currencies.

Senator SHIPSTEAD. What would be the effect on the commerce of the country and their general economies if this were done, in your opinion?

Mr. TRENT. I think if they have a convertible currency in this bank which would run side by side with the national currencies such as our Federal Reserve notes run side by side with our national currency here, that it would have the effect of very quickly bringing those national currencies to parity. It is the function of this bank more than any other one function to stabilize currency, but they have no means with which to do it.

Senator SHIPSTEAD. You then are of the opinion that the effect of that upon the transactions and the commercce of these countries will be so benign that it would improve their currencies?

Mr. TRENT. It will improve their local currencies tremendously.

Senator SHIPSTEAD. That is what I mean.

Mr. TRENT. And it will do so almost instantaneously. The principal function of this Inter-American Bank as not set forth is to stabilize those currencies. This can be done only when you have convertible money issued by the Inter-American Bank, protected by gold that is either imported or gold that is produced in their various countries—South America and Mexico are big producers of gold, and by utilizing it as reserve the bank would become immensely strong and they would have the best currency in the world. Their currency would be better than the present United States currency. Technically, it would be better until we find conditions agreeable to the administration and the Congress to return to a gold convertible basis ourselves. Personally, I think we are overdue returning to gold, but I am sure that I know as much about this condition as the administration and our central banks. The Administration never argue this question. They never give any factual reasons why we should not go back to gold, so we do not have an opportunity, either to debate or to discuss the policy of the administration as to why they elect to postpone a return to gold. The leading bankers have advocated a return to gold.

Senator SHIPSTEAD. Mr. Trent, where will the bank be located?

Mr. TRENT. The principal office of the bank shall be in the United States of America and at least one branch or agency of the bank shall be established in the territory of every other participating government.

Senator SHIPSTEAD. What is the initial capital to be of the proposed Inter-American Bank?

Mr. TRENT. $100,000,000.

Senator SHIPSTEAD. In what manner are the subscriptions to be paid?

Mr. TRENT. Subscriptions are to be paid for in gold or in dollars.

Senator SHIPSTEAD. How many shares will represent the capital?

Mr. TRENT. There will be 1,000 shares, having a par value of $100,000 each.

Senator SHIPSTEAD. What countries are qualified to subscribe to the shares of this bank?

Mr. TRENT. Stocks shall be available for subscription only to governments of the American republics which have subscribed, or adhere to the convention relating to this bank. For a government to participate in the bank it must subscribe for a minimum number of shares, determined in relation to the dollar value of the total foreign trade of each of the American republics durring the year 1938, as follows:

Group A: Up to 25 million dollars: Costa Rica, Ecuador, El Salvador, Haiti, Honduras, Nicaragua, and Paraguay, 5 shares.

Group B: Over 25 million dollars and up to 50 million dollars, Dominican Republic, Guatemala, and Panama, 10 shares.

Group C: Over 50 million dollars and up to 75 million dollars: Bolivia, 15 shares.

Group D: Over 75 million dollars and up to 100 million dollars: Uruguay, 20 shares.

Group E: Over 100 million dollars and up to 150 million dollars: Peru, 25 shares.

Group F: Over 150 million dollars and up to 250 million dollars: Chile, Colombia, and Cuba, 30 shares.

Group G: Over 250 million dollars and up to 500 million dollars: Mexico and Venezuela, 35 shares.

Group H: Over 500 million dollars: Argentina, Brazil, and United States of America, 50 shares.

Senator SHIPSTEAD. May each participating government subscribe for stock in addition to the minimum?

Mr. TRENT. Yes. Where the demand for such additional stock exceeds the amount available for issue by the bank, such demand will be met on an equal basis from such available shares.

Senator SHIPSTEAD. What is the liability of a shareholder?

Mr. TRENT. The liability of a shareholder on its shares shall be limited to the issue price of the shares held by it.

Senator SHIPSTEAD. Can the number of shares of the bank be either decreased or increased?

Mr. TRENT. The capital structure of the bank, including the number and par value of the shares, may be decreased or increased by a four-fifths majority vote of the board of directors, except that a unanimous vote of the representatives of all the participating governments shall be required to increase or decrease the minimum holdings of participating banks.

Senator SHIPSTEAD. What will be the voting power of the participating governments or the board of directors?

Mr. TRENT. The voting power of the participating governments or the board of directors shall be distributed as follows: 20 votes for each government for its minimum shares, and 1 vote for each additional share. However, regardless of the amount of stock owned by it, no government shall have a voting power in excess of 50 percent of the total voting power of all the other participating governments.

MANAGEMENT

Senator SHIPSTEAD. How will the bank be administered?

Mr. TRENT. The administration of the bank shall be vested in the board of directors, composed of one director and one alternate appointed by each participating government. Each government shall appoint its director and alternate and any nominee or proxy in a manner to be determined by it. Such director shall serve for a period of 2 years, subject to the pleasure of his government.

Senator SHIPSTEAD. When and where will the meetings of the board of directors be held?

Mr. TRENT. Meetings of the board of directors shall be held not less than four times a year, and may be held either at the principal or any branch office or at any other city in a participating country as the board may determine. The president may call special meetings of the board at any time. All meetings, regular, special, or extraordinary, shall be held upon such reasonable notice as the board may provide by regulations.

Senator SHIPSTEAD. How is the president of the bank elected?

Mr. TRENT. The board of directors shall select a president of the bank who shall be the chief of the operating staff of the bank, and who also shall be ex-officio chairman of the board; and one or more vice presidents, who shall be ex-officio vice chairmen of the board. The presidents and vice presidents of the bank shall hold office for 2 years, shall be eligible for reelection, and may be removed for cause at any time by the board. The board of directors shall determine the order in which vice presidents shall serve as acting president and chairman in the absence of the president.

Senator SHIPSTEAD. How will the departmental organization of the bank be determined?

Mr. TRENT. The departmental organization of the bank shall be determined by the board of directors. The heads of departments and other similar officers shall be appointed by the board on the recommendation of the president. The remainder of the staff shall be appointed by the president.

Senator SHIPSTEAD. Will the board of directors have an executive committee?

Mr. TRENT. Yes. The board of directors may also appoint from among its members an executive committee. The board may meet at any meeting, by a four-fifths majority vote, authorize the president or the executive committee or any other committee of the bank to exercise any specified powers of the board; provided, however, that such powers shall be exercised only until the next meeting of the board and shall be exercised in a manner consistent with the general policies and practices of the board. The board may also, by a four-fifths majority vote, delegate to designated officers and committees of the bank, for such periods as it may determine, power to make loans and extend credit in such small amounts as may be fixed by the board. The board of directors may appoint advisory committees chosen wholly or partially from persons not regularly employed by the bank.

Senator SHIPSTEAD. How and when will the reserves of the bank be established?

Mr. TRENT. The board of directors, within a year after its first meeting, shall by regulations prescribe the reserves to be established and maintained against demand deposits and other obligations of the bank, and shall prescribe a limitation on the amount of intermediate and long-term assets in relation to capital and surplus; and such regulations shall not be amended, modified, or revoked except by a four-fifths majority vote of the board.

Senator SHIPSTEAD. Under what conditions will the bank approve an intermediate or long-term loan?

Mr. TRENT. Before the bank finally approves an intermediate or long-term loan or extension of credit a full written report on the merits of the proposed transaction shall be prepared by a committee of experts, which may include persons other than officers and employees of the bank.

ACCOUNTS AND PROFITS

Senator SHIPSTEAD. In what monetary system will the books of the bank be expressed?

Mr. TRENT. The books and accounts of the bank shall be expressed in terms of dollars.

Senator SHIPSTEAD. When and how will the bank make its report?

Mr. TRENT. The bank shall publish an annual report and at least once a month a statement of account in such form as the board of directors may prescribe. The board shall cause to be prepared a profit-and-loss account and a balance sheet for each financial year. All published documents shall be printed in the official languages of the participating governments. The board shall designate a committee of directors to arrange for examination, at least once a year, of the books and accounts of the bank by competent experts to be selected by the committee.

Senator SHIPSTEAD. Is the bank to be a profit or a nonprofit institution?

Mr. TRENT. The bank is to be a profit institution:

(1) Net less than 25 percent of such net profits shall be paid into surplus until the surplus is equal in amount to the par value of the authorized capital stock of the bank.

(2) The remainder of such net profits shall be applied toward the payment of a dividend of not more than 3 percent per annum on the paid-up amount of the stock of the bank; provided, however, that dividends shall be noncumulative and no dividends shall be paid so long as the capital of the bank is impaired.

(3) The balance of such profits shall be paid into surplus and be designated a dividend reserve.

Senator SHIPSTEAD. Under what conditions may the bank be liquidated?

Mr. TRENT. The bank may not be liquidated except by a four-fifths majority vote of the board of directors. Upon liquidation of the bank and after discharge of all the liabilities of the bank, the assets remaining shall be divided among the shareholders. The shares shall carry equal rights to participate in the profits of the bank and in any distributions of assets upon liquidation of the bank.

PURPOSES AND POWERS

Senator SHIPSTEAD. What is the broad purpose of the bank?

Mr. TRENT. To facilitate the prudent investment of funds and stimulate the full productive use of capital and credit.

Senator SHIPSTEAD. Will the bank participate in stabilizing currencies?

Mr. TRENT. Yes. It is one of the main purposes to assist in stabilizing the currencies of pan-American republics.

Senator SHIPSTEAD. What special power will the bank have to assist in stabilizing currencies in each member country and stabilizing the currencies of all member countries in relation to one another?

Mr. TRENT. They will be authorized under their charters to buy and sell currencies and to encourage general direct exchanges of currencies of American republics.

Senator SHIPSTEAD. Does that answer imply that the currencies of the various countries are to be legal tender in all of the member countries?

Mr. TRENT. It is not so stated under the heading of purposes and powers.

Senator SHIPSTEAD. To what extent will they have power to promote the use and distribution of gold and silver?

Mr. TRENT. There are no specific powers described by which they could promote the use and distribution of gold and silver, except by the purchase and sale of the two metals.

Senator SHIPSTEAD. Will they have the power to buy gold from the gold producers of any or all of the bank-member countries?

Mr. TRENT. They have the power to buy, sell, hold, and deal in precious metals, currencies, and foreign exchange for their own account or others; provided, however, that no such transaction shall be entered into with a fiscal agency, central bank, political subdivision, or national of a participating government, if such government makes a timely objection.

Senator SHIPSTEAD. Should not the charters granted the bank by the various countries grant the right to the bank to buy gold and silver from the producers of these metals?

Mr. TRENT. The banks should have the unqualified power to buy and sell gold and silver in every member country if it is to have adequate power to stabilize currencies and encourage general direct exchanges of currencies of the American republics.

Senator SHIPSTEAD. Has the bank the power to accept deposits from corporations and individuals as well as from governments, agencies, and State subdivisions?

Mr. TRENT. The bank has the power to accept demand, time, and custody deposits and accounts from others, including participating governments and fiscal agencies, central banks, political subdivisions and nationals thereof, unless the participating government makes a timely objection; provided, that the bank shall pay interest, if any, only on the deposits of government, fiscal agencies, and political subdivisions thereof, and central banks.

Senator SHIPSTEAD. Has the bank the power to open and maintain accounts with other than participating governments?

Mr. TRENT. The bank has the power to open and maintain demand, time, and custody deposits and accounts with governments and banking institutions and arrange with governments and banking institutions to act as agent or correspondent for the bank, unless such banking institution is situated in the territory of a participating government and such government makes a timely objection.

Senator SHIPSTEAD. Has the bank the power to deal in the obligations and securities of any participating government?

Mr. TRENT. The bank has the power to buy, sell, hold, and deal in the obligations and securities of any participating government and of fiscal agencies, central banks, political subdivisions and nationals thereof, unless such government makes a timely objection to the purchase thereof; provided that such obligations and securities having maturities exceeding 2 years as are in the direct liability of such government are guaranteed by such government, and provided, further, that the banks shall not buy obligations and securities that are in default in whole or in part as to principle or interest.

Senator SHIPSTEAD. Do the charters of the various countries empower the bank to issue a bank currency, either metallic or paper, or both?

Mr. TRENT. There is no provision made for the power to issue inter-American currency, either with or without legal tender, in the bank-member countries.

Senator SHIPSTEAD. Should not the bank have such powers?

Mr. TRENT. Yes. It should be the principal function of the bank in respect of establishing stabilized currencies.

Senator SHIPSTEAD. Should this bank have the power to convert gold and silver into inter-American coins with legal-tender characteristics?

Mr. TRENT. The bank should have this power, but the coinage rates should conform to those of the United States inasmuch as the capital of the bank is based on dollars and their books are to be kept in dollars.

Senator SHIPSTEAD. If the bank had the power to issue currency, should such currencies be in gold and silver and paper currencies convertible into gold and silver coins, or should they have the right to issue inter-American bank notes which are not convertible?

Mr. TRENT. They should have the right to issue gold, silver, and convertible currencies acceptable in all member countries at face value, but under no circumstances should they contribute further to the demoralization of the currencies and exchanges by being permitted to issue nonconvertible bank notes.

Senator SHIPSTEAD. If the Inter-American Bank should be granted the power to issue a uniform-currency system which is legal tender in all bank-participating countries, what effect would it have on the trade and commerce between such countries?

Mr. TRENT. It would have the most beneficial effect of any power that could be granted to the bank, because the nationals of each country could then deal in commerce and trade with the nationals of any or all of the other countries through this currency, thereby avoiding all of the hazards, losses, and delays now encountered under conditions of each country having its own currency system.

Senator SHIPSTEAD. How would the existing currency system be affected by Inter-American Bank currency circulating side by side with them?

Mr. TRENT. The foreign commerce between the countries would be conducted through the medium of the Inter-American Bank currency. Under this influence the national currencies gradually would conform their monetary system to that of the Inter-American Bank or they would gradually adopt the inter-American currency as their national currency. In either case the social, political, and commercial prosperity of each participating country would be promoted to the maximum degree. Capital investment would then flow with absolute security from creditor countries to those which need capital and development. By no other means could a condition of balanced trade and capital accounts be secured to the same degree as by having the Inter-American Bank empowered to issue inter-American currency based on gold and silver.

Senator SHIPSTEAD. I have no further questions, Mr. Trent. We are very thankful for your appearance and testimony.

Senator PEPPER. Thank you, Mr. Trent. We are very glad to have had your testimony.

Have you another witness at this time, Senator Shipstead?

Senator SHIPSTEAD. Yes, Mr. Chairman. It is Dr. C. E. McGuire. I requested him to come for several reasons. He has appeared before this committee before. During the past winter he spent several months in South American countries. He has had a great deal of experience in international affairs, and I thought for the benefit of the committee and of the record I would like to ask him to discuss some of the things that have come into his experience and his observation. He has been in all of Canada and South America.

Senator GREEN. I shall be very much interested to hear him.

STATEMENT OF DR. C. E. McGUIRE, ECONOMIST

Senator SHIPSTEAD. The doctor said he did not want to prepare a formal statement but would rather submit to questions that might occur, for our information. I prepared some questions to ask him, to save time.

Senator GREEN (acting chairman). You proceed just as you prefer, Senator.

Senator SHIPSTEAD. Doctor, to begin with, will you state for the benefit of the record your background, your connections, international financial studies, and particularly in connection with the countries of the Western Hemisphere, more particularly, South American countries.

Senator GREEN. Give your name, please.

Dr. McGUIRE. Constantine E. McGuire, Cosmos Club, Washington, D. C. I have been interested in the economical-legal background and development and the population trends of the Spanish- and Portuguese-speaking world for about 30 years. I wrote my doctoral dissertation for Harvard University in Spain before the war of 1914–18. From 1915–22 I was associated with the Inter-American

High Commission, the chairman of which most of that time was the Secretary of the Treasury of the United States.

I had association with the two pan-American financial conferences of 1915 and 1920, and the two Pan-American Scientific Congresses held here, of 1916 and 1940.

In the Inter-American High Commission I had particularly good opportunity to go into Latin-American monetary problems in connection with the development of the International Gold Clearance Fund Convention by that Commission. From 1922–28 I was on the staff of what was known then as the Institute of Economics, now known as the Brookings Institution, and there I had occasion to devote my attention to public finance and banking and currency problems, and still to some extent to population problems.

Since 1928 I have been simply an economist at large, occasionally associated with universities, and this past year, acting as the visiting professor of the Carnegie Endowment for International Peace, to the state universities of South America, lecturing under the foundation set up some years ago.

From 1931–36 I was a member of the board of directors of the National Bank of Nicaragua, and for 3 years was chairman of that board; that is, the central bank of that Republic. From 1936 on I was frequently the economic adviser of the Government of Venezuela and have lately been so engaged.

On behalf of the National Bank of Nicaragua and the Venezuelan Government, more particularly the Banco de Venezuela, which is a privately owned bank, serving as fiscal agent of the Venezuelan Government for a great many years, I had a great deal to do with the Bank for International Settlements, at Basle, and made several visits to Basle in that connection.

Senator SHIPSTEAD. Have you finished your statement?

Dr. MCGUIRE. Yes.

Senator SHIPSTEAD. Would you care to elaborate on your experience as an official of the Nicaraguan bank?

Dr. MCGUIRE. In that connection I had a great deal to do with exchange control. The National Bank of Nicaragua was established in 1911–12 at the instance of banking syndicates in this country which were invited by the then Secretary of State to interest themselves in the rehabilitation of Nicaraguan finances. The bank was set up with control in the hands of the syndicates of bankers and a minority interest in the hands of the Nicaraguan Government.

By the time that loan had been entirely repaid, in the middle of the third decade of the century, the Nicaraguan Government could resume control of the bank, but it chose to leave the board in the United States and chose to leave the active incorporation undisturbed, which had been secured from the State of Connecticut.

Senator PEPPER. Excuse me, Doctor. I apologize to you for interrupting you, but I am going to have to excuse myself, if the committee will allow me. Suppose you, Senator Green, act as chairman. I am sorry to trespass on you like this, Doctor. Do you have any other witnesses?

Senator SHIPSTEAD. No.

Senator PEPPER. Lou go ahead, and if you anticipate that the Doctor's statement will take more than this time, then he might speak another time.

Mr. McGuire. I think that I could say all I have to say today, if other questions are not developed as a result of it.

Senator Pepper. On that appearance of things, then, the committee will terminate the hearings upon the termination of Dr. McGuire's testimony, and then the committee will confer. If it takes more time than today, you fix the time.

Tomorrow morning I shall be available at 10 o'clock, Doctor, if you care to continue then, but I shall read with a great deal of interest what you have to say.

Senator Shipstead. Now, you were discussing the relations with that bank.

Dr. McGuire. Yes. In the years 1931–35 the economic situation of Nicaragua was extremely depressed, owing to the coffee problem, owing to a great earthquake which devastated the capital, and to other set-backs.

Senator Shipstead. In what condition was its currency?

Dr. McGuire. The currency remained fairly stable because of the rigid control which the bank managed to maintain.

Senator Shipstead. Was it a convertible currency?

Dr. McGuire. It was at the beginning convertible into gold, but that had to be suspended. Parity with the dollar of the United States had been originally provided by legislation. The two units represented the same amount of gold, but it became necessary to permit gradually a slight discount to be established. We held it at about 110 to the dollar until the change of government in 1936.

Senator Shipstead. You spoke of the international gold clearance fund. You had some relations with that. Will you briefly state for us what was the purpose of it and what its functions were, and what the effect of its operation was.

Dr. McGuire. The International Gold Clearance Fund Convention was drafted by John Bassett Moore, a member of the Commission, and the late Paul M. Warburg, of the Federal Reserve Board, after a meeting of the Inter-American High Commission at Buenos Aires, in 1916.

It was a convention designed to provide an international clearance or clearing fund, inviolable in time of peace or in war, or in any circumstances whatever, to be settled from time to time as provided by the contracting parties, and its obvious purpose was to avoid the consequences of the physical shipment of gold from country to country in the settlement of balances. It was obviously modeled upon the Gold Clearance Convention that existed in the first stages of the Federal Reserve System's development.

Senator Shipstead. It operated with some success, did it not?

Dr. McGuire. It never got a chance to operate at all, because of these circumstances. The convention was drafted and submitted by the Department of State to the governments which had been represented in the meeting of the Inter-American High Commission. The Department of State took the word of the Treasury that that was what the Treasury wanted.

The Treasury was most interested, apparently. Some five governments signed the convention, and even made progress towards its ratification. The five treaties were sent by the Department of State to this committee, about 1918, and the chairman of the committee at that time called upon the departments interested for an expression of opinion, as is the custom. To his astonishment he learned that the Treasury now regarded the treaty as inadvisable, and that the Treasury in fact would oppose its ratification.

The Department of State had the somewhat embarrassing responsibility of inviting the five governments which had concluded the convention to shelve it.

Senator SHIPSTEAD. Senator Green, Dr. McGuire spent a great deal of time in South America this past winter. He is always a keen observer, and that it why I especially wanted him to come before this committee and, for the record, to give us the benefit of his observations.

You have already told us, Doctor, for whom you went to South America, namely, the Carnegie Endowment. Will you elaborate upon some of the things that you observed? Which of the countries did you visit? How many of them? What were your duties there?

Dr. MCGUIRE. I visited all the continental republics of South America except Bolivia, and lectured in the universities of Brazil and all the Spanish-speaking republics except Bolivia, as well as in a number of private or quasi-public organizations, medical societies, statistical groups, and other gatherings.

Senator GREEN. Excuse me for interrupting. What were you lecturing on?

Dr. MCGUIRE. I was lecturing upon the relation between the growth of capital and the growth of population, and the economic consequences of the superannuation of population, and the effect of changes in the age composition of population upon policy and theory.

Senator SHIPSTEAD. Will you give us an outline of the financial, agricultural, and commercial developments in South America? Will you state briefly what impression you received on the economic conditions of those countries, with relation to their currencies, their markets, and so forth, and their stability? The reason I ask that, Doctor, is because we are evidently getting into closer relationship with them, and we ought to know more about them. A relatively small number of our people have ever been there; the rest know nothing about the South American countries or their economic conditions. Will you elaborate as briefly as you can, but as extensively as you think necessary?

Dr. MCGUIRE. Thank you; I shall be very glad to do it.

As far as I could observe there was no economic distress anywhere in Latin America that could be attributed specifically to the war now going on in Europe. In Argentina, to be sure, there was a shrinkage in expected profits, in expected volume of business. That goes back, however, several years prior to the war—goes back in fact to the beginning of the development in Europe of policies of self-sufficiency in the production of foodstuffs and raw materials supposed to have important strategic value; but since the war actually broke out in Europe the development even in Argentina has by no means approached the distress that prevailed there some 6 years earlier, in the early part of the decade which closed with 1940.

In the other countries, so far as I could ascertain, talking with economists, public officials, the officers of nearly all the central banks, and with producers of various sorts, mineral, agricultural, and the like, there was no genuine hardship that you could lay at the door of the war. Several countries seemed to be immeasurably stronger than they had appeared even as recently as the middle of the past decade, while other countries have had a substantial improvement in the volume of exports and in more particularly the diversification of activities within their frontiers since, say, 1936–37, due in large measure to the considerable influx of foreign capital that has taken place beginning in 1935, so far as European sources were concerned, later augmented by capital flowing from this continent a couple of years after that.

There is a diversification of industry, and there are all the phenomena that accompany the filling in of frontiers, the trying out of new developments incidental in some measure to the protective policies which the various governments have set up. Tariffs have existed since colonial days in South America. The emphasis for many decades was on revenue. In the last 30 or 40 years the emphasis has slowly shifted from revenue to the protection of this and that and the other economic interest. That in itself does not imply any shrinkage in the volume of trade with other countries, and it may well be the case that for example, Colombia, now developing a surprisingly high-grade woolen industry, developing also the petroleum industry, and developing others that represent a marked expansion from the monoculture built around coffee that characterized that country's economic life some few decades ago, may be able because of the growth in the aggregate income to import still more diversified goods not yet produced or perhaps producible in Colombia from those countries where such goods are to be had.

Summing it up, I should say that the principal problems in Latin America, as a whole, or in South America, more specifically, in the field of economic and social development, relate to the growth of the population predominantly of European origin; that is to say, predominantly of the same continental origin as that of the United States. A good many of those countries have populations primarily of indigenous origin. Others have a large Afro-American composition. And unless the flow of European population, or population from North America of European antecedents itself is resumed in the relatively near future, I should not care to express any very optimistic views as to the future of the economic development of South America, even though great inflow of capital should proceed from the United States, either public or private in origin.

Senator SHIPSTEAD. You spoke of this flow of foreign capital into South America. Am I right in assuming that it was quite substantial? I got the impression you meant to convey that idea.

Dr. McGUIRE. It was very substantial.

Senator SHIPSTEAD. That helps its economy? It is invested there.

Dr. McGUIRE. It has helped the economy to the extent that it has relieved the pressure upon the currencies of certain countries. The provision of foreign capital for the development of existing industries or the beginning of new industries not heretofore known has been made possible by very substantial capital flow from central Europe, later from western Europe, beginning about 1935.

Senator SHIPSTEAD. Would you call that "escape capital"?

Dr. McGUIRE. Some of it was undoubtedly. Important units of central European capital made their way out before the expansion of the storm in that area.

Senator SHIPSTEAD. Would you consider it likely that that flow of capital would continue and that the populations would increase down there after the war in Europe?

Dr. McGuire. As to the movement of capital from an impoverished Europe or even from other parts of the world, I would not be very sanguine, but as to the movement of population I should suppose that that might be resumed in some volume. It will depend, of course, upon the attitude of those who are in position to control the movement of population out of Europe or out of North America.

Senator Shipstead. As I understand it, the purpose of this act is to help these countries with capital to stabilize their currencies and to promote their trade. Now, do you think that this inflow of foreign capital is sufficient if left alone and if it were not for the condition imposed by the war? Do you think the time is gone when private capital can furnish the funds necessary for the further development, if further development comes as the result of the influx of more population?

Dr. McGuire. I am inclined to believe that the time has not passed yet when the development of resources and the provision of consumer's goods for the population of South America can be adequately facilitated, sustained by private capital. I do not believe that we have reached a point where great public enterprises have to be substituted for private activity in that respect.

Senator Green. In that sentence you laid a good deal of emphasis on "yet," "they have not reached that point yet." Are you anticipating their reaching that point?

Dr. McGuire. I should say, Senator, that if there is a resumption of the flow of European or of North American population, "immigration" if you please, to South America, there will be no period in the measurable future when private capital need be replaced. If, however, it should develop that Europe can no longer make the great investment in human capital in South America which it has made over the past four centuries and above all the last century, then it is conceivable that the so-called standard of living will begin to crumble without the sustained effort of public authorities through public loans and the like.

Senator Shipstead. Do you think that a central bank could be of benefit here, if it were an independent bank, and could be useful, in developing and stabilizing currencies, and beneficial to commerce there?

Dr. McGuire. I think it is possible that an institution set up on as nonpolitical a basis as possible and bringing together the central banking and banking authorities of this hemisphere might render in the course of time valuable service in stabilizing the rates of exchange between different currencies, and even to some extent in promoting certain very large long-term operations; but I would emphasize its nonpolitical character and its relationship primarily with the central banks rather than with the governments; admitting without argument that in some of the countries with which we are here involved central banks are virtually parts of the government. That is not so, however, throughout, and is not so in the countries now in the more advanced economic stages.

Senator Shipstead. You have referred to the Bank for International Settlements. Would that have performed such a function?

Dr. McGuire. I think the Bank for International Settlements would have rendered a very great service indeed to this whole continent, if it had been able to extend its interest and effective scope of activity to the continent of South America, and I shall go even further to say parenthetically, to the continent of North America; but in any event, so far as the republics to the south are concerned. I thought so for years and did what I could to bring about the extension of the activity of the B. I. S. to South America, and brought the two central banks with which I had certain connections from time to time, actually into a relationship with the B. I. S. for that period.

Senator SHIPSTEAD. You have read this convention, have you?

Dr. McGUIRE. I have read the convention and other documents since yesterday afternoon.

Senator SHIPSTEAD. We would like to have the benefit of your opinion as to whether this banking project would assist and promote international commerce.

Dr. McGUIRE. I think that it would undoubtedly promote. It would promote trade and commercial relations between the American countries, even as it stands.

Senator SHIPSTEAD. The monetary unit is the dollar. The question is one of getting dollars to these people and to the bank. How would these people get dollars through the bank?

Dr. McGUIRE. The Inter-American Bank would presumably furnish—from its capital at the outset and later from such banking arrangements as it might make here under domestic legislation that is contemplated in these proposals—the dollars which it would lend to the central banks or to other agencies of the countries participating in the arrangement.

Senator SHIPSTEAD. I assume that it is done for the purpose of facilitating trade and encouraging trade.

Dr. McGUIRE. Obviously.

Senator SHPSTEIAD. And that these dollars in some way would have to bear a relation to the currencies of various countries.

Dr. McGUIRE. Well, dollars would have to be made accessible, naturally, to persons importing from the United States, at rates lower than those that have lately prevailed in the majority of those countries, or else the bank would simply function in a vacuum.

Senator SHIPSTEAD. It would be the duty of the bank to provide dollars to these countries for the stabilization of their currency?

Dr. McGUIRE. To make dollars available for the promotion of trade and presumably the maintenance of somewhat stable exchange rates between the currencies of those countries and the currency of this country.

Senator SHIPSTEAD. Can you anticipate that in this exchange there would be much difference in stabilizing foreign currencies through this bank, in that there would be a fiscal loss in the transactions of the bank in stabilizing these currencies? For example, if you take dollars and buy foreign currency, you try to make the difference as cheap as you can, in order to make it possible for people to transact business, who have a lower currency.

Dr. McGUIRE. Clearly the promotion of any great expansion in our trade with these countries will not be possible unless the dollar becomes somewhat more accessible than it has been, let us say, in the last 2 or 3 years. It will mean that in the case of, say, a person in Chile, in order to be induced to buy in the United State merchandise or services absolutely unavailable anywhere else in the world, must be given some concession. This inducement would be afforded through a closely controlled supervision of trade, possibly through some rationing and the establishment of priorities and the like. This machinery might furnish pesos at—simply to take a hypothetical figure—20 to the dollar instead of $33\frac{1}{2}$, the rate prevailing when I was in Chile a few months ago; so that it amounts, if you care to use that phrase, to cheapening the dollar to the foreign purchaser of our goods.

Senator SHIPSTEAD. It would have to be done in order to facilitate trade, it seems to me, or there would be no trade, which was the purpose.

Dr. McGUIRE. Which would be the only real purpose, one would suppose, in going through so much elaborate machinery, namely, to make dollars available at less expense.

Now, those undertakings, sometimes carried out in Europe in recent years, involve the possibility of loss. There has been over the past 5 or 6 years a not inconsiderable loss for the British Exchequer in connection with the operation of its great Equalization Fund.

Senator SHIPSTEAD. Has it not always been more or less true of the Exchequer in dealing all over the world with these various countries?

Dr. McGUIRE. Sometimes it has been true and sometimes there have been rigid types of control exerted with elaborate machinery, as in the case of the German system of the last 5 or 6 years, that have attempted to distribute the loss over someone else's shoulders rather than the country's own citizens'.

Senator SHIPSTEAD. Do you think the losses could be minimized over a long period of years?

Dr. McGUIRE. I do not think that the loss could be minimized.

Senator SHIPSTEAD. You do not? Well, how would it affect long-term investments? I understand the purpose of this bank is to facilitate the long-term flotation of capital.

Dr. McGUIRE. I should expect that the bank could facilitate long-term investment on a great scale, provided the Government most interested in furnishing the capital, whether in the form of finance capital or of gold or of goods, were willing to absorb the differences between free market prices and rigidly controlled prices.

Senator SHIPSTEAD. There would be a difference. Would that be a loss or a profit?

Dr. McGUIRE. A loss obviously must be absorbed somewhere.

Senator SHIPSTEAD. And in your opinion what would be the effect, or what could this bank do under this charter to establish more stability in the currencies of the various countries, not having convertible legal tender or medium of exchange as a foundation?

Dr. McGUIRE. If the proposed bank were to be given genuine autonomy and set up at least in the spirit in which the Bank for International Settlements was set up 12 years ago, I should suppose that it could go a considerable distance in facilitating the stabilization of exchange rates and the gradual approximation of currency standards to a convertible basis, and if the bank itself were permitted to issue convertible certificates of its own against holdings of gold, based however upon stipulated weights of gold, such as the gram, the legal basis of all measurement in the other countries of this hemisphere, and, of course, much of the rest of the world, too, then, I should suppose that those certificates convertible into gold at stipulated weights might become a genuine type of reserve for the currencies of participating countries, if the bank loyally observed its obligation to convert the certificates upon demand.

Senator SHIPSTEAD. I understand that cannot be done under the charter. You think it would be desirable?

Dr. McGUIRE. The convention contemplates that it can at least be proposed, but in the light of the domestic legislation of this country and the spirit of the bylaws, of course, putting the account in terms of dollars rather than in terms of a metal, and tying the currencies of the countries to the dollar rather than to the commodity we call "gold" or the commodity we call "silver," it cannot be done. It will be necessary to modify both the legislation proposed for this country and the bylaws and charter of the bank.

Senator SHIPSTEAD. You think it would be desirable to have a free gold market and a silver market in the participating countries, with gold and silver prices fluctuating in domestic currencies, and still have certificates of the bank convertible?

Dr. McGUIRE. I believe that if you had the price of gold and silver left to free markets in the various countries, and you had a certificate based upon the gram of gold, convertible into gold upon demand, you might in the course of time make considerable progress toward the stabilization of currencies.

Senator SHIPSTEAD. From what you have observed in other countries, if you talked about this matter at all, did you come to any conclusion as to whether they would or would not find this beneficial to have this kind of convertible currency and a central bank?

Dr. McGUIRE. As far as I have observed——

Senator SHIPSTEAD. You think they prefer the dollar to this kind? If you talked to central bankers, did you have an expression from them?

Dr. McGUIRE. I have had the impression everywhere in South America that while the dollar is respected now as the strongest currency in these years, just as the sovereign and the pound held the paramount position in world trade for some generations, and other currencies in earlier ages, there is no disposition anywhere, when people get down to face the solemn provisions of a convention and the basic legislation relating to currency and monetary policy—I repeat, there is no disposition anywhere to tie the currency of any one of the those countries to the currency of the United States.

Senator SHIPSTEAD. You say there is no desire to so tie it?

Dr. McGUIRE. I believe there is no desire to take the formal step of tying their currencies to the currency of the United States as it now stands in its inconvertible status. There is a great respect for the dollar, and I can well imagine that those who attended the meetings from which these proposals have come could believe that for those years, 1938, 1939, 1940, and, perhaps, for several years to come, the dollar will remain the strongest currency in international commercial and financial movements but when the lawyers in the various national legislatures and the bankers, the agricultural producers, the independent people in the economic life of those countries settle down to consider the advisability of a convention that links their currency inextricably to the dollar, a great deal more opposition will develop than may have been supposed or expected by those who took part in the deliberations of the Intra-American Economic Committee.

Senator SHIPSTEAD. The stockholders of this bank are going to be the governments or their subsidiaries?

Dr. McGUIRE. Apparently.

Senator SHIPSTEAD. Some of these countries have independent banks, others have so-called government central banks, as I understand it, such as the R. F. C., and so forth?

Dr. McGUIRE. Yes.

Senator SHIPSTEAD. What would be the effect or significance of that, if any?

Dr. McGUIRE. Some of the central banks in South America are essentially independent notwithstanding the fact that the government officials, the minister of finance, and others having to do with public policy, have a good deal to say virtually in the framing of the central bank policy. At least four of the central banks in this hemisphere have been put into existence on the basis of plans drawn up substantially by Prof. Edwin Kemmerer, of Princeton University, and involve the placement of a great measure of control in the domestic private banks, with some adequate voice for branches of foreign banks situated in the respective countries.

In other cases, the central banks are controlled as to a majority of their stock by their governments. There are in all of those countries a great number of these new entities that have come into the world since the Fascist State was established in Italy some 19 years ago, intermediary financial institutions autonomous as to their budgets and given a remarkable measure of freedom as to the investment of their funds, using public funds, enjoying monopolies, but not responsive to rigid budgetary limitations.

That Fascist idea spread over South America, as it has spread in the United States, where we have some 20 or 25 autonomous institutions, beginning with the Reconstruction Finance Corporation, and stretching down through an ever-increasing number. The use of those institutions that are controlled by the governments from a purely political angle and do not have any real roots in the agriculture, in the mining, in the commerce, or in the savings institutions of the countries concerned, is, in my view, undesirable as the basis for international cooperation. We have enough machinery now as it is for political cooperation in this hemisphere, and if all that is required is to provide some regularized channel for international loans from government to government, I suppose that considerably less elaborate machinery than is here contemplated could be readily enough devised by agreements between the interested governments, looking to 2-, 3-, or 5-year periods of cooperation rather than a 20-year commitment of this sort.

Senator SHIPSTEAD. Do you think the mission of this bank would conflict with the mission of the R. F. C. or the Export-Import Bank? Would the functions of each of them be similar?

Dr. McGUIRE. Frankly, I can see very little in this proposal that could not be accomplished by existing machinery, although I must say that if I had to choose between the kind of machinery we now have and a more formal type of machinery, I would prefer a more formal type, but I would not regard it as desirable to put the control of commercial banking in the hands of political institutions to so great an extent as is likely to become the case through the sheer momentum of this institution. If it functions at all, it must soon reach almost astronomical dimensions.

Senator SHIPSTEAD. You mean this proposed bank?

Dr. McGUIRE. This proposed Inter-American Bank. And if it does not function, then of course the entire adventure has been a very limited success.

Senator SHIPSTEAD. Are there many banks in South America that are controlled by foreign capital, particularly European?

Dr. McGUIRE. That is to say, private, not public banks?

Senator SHIPSTEAD. Private banks.

Dr. McGUIRE. There are great branches of British, French, Spanish, Italian, German, and Belgian banks, whereas the United States has branches of two quite prominent eastern-seaboard banks and agencies of other banks, and the Dominion of Canada has a network of branches of one important joint-stock bank.

Senator SHIPSTEAD. Have you observed through these banks the use of considerable political influence by nationals as the result of the economic power that accompanies credit?

Dr. McGUIRE. Unquestionably banks can exert political influence in countries in the more formative stages of economic development. That has happened for a great many years. It happened on a large scale in the development of our own history.

Senator SHIPSTEAD. We are quite familiar with the political interference on the part of our banks who have been down in South America. I was wondering if the same were true as to other foreign banks, particularly European?

Dr. McGUIRE. I think they can exert some; but I believe, too, that they exert a good deal less influence upon the trend of foreign policy than is generally supposed in this country. I think the main influence they exert is in the field possibly of tarff policy in securing perhaps a modicum of protection for this or that enterprise with which they are associated.

Senator SHIPSTEAD. Do you find a good deal of nationalistic spirit among those South American countries?

Dr. McGUIRE. There is a great deal of nationalism in this hemisphere. It is characteristic of the hemisphere, and shows promptly and sensitively the moment any pretension or inference of interference from outside is made.

Senator SHIPSTEAD. Does that apply to any foreign country?

Dr. McGUIRE. That applies very widely. It would apply to any country.

Senator SHIPSTEAD. You do not find much foreign influence in their politics; am I right in assuming that?

Dr. McGUIRE. I think there is less than we have been supposing in the last few years. After all, the European population in South America is for the most part of Spanish and Portuguese origin. but there are also other elements long rooted there.

Senator SHIPSTEAD. I think that is all I wish to ask.

Senator GREEN (acting chairman). I wonder if there are any of the other gentlemen present who wish to comment in any way on the statements that have been made, or to answer them? If you think it desirable to do so, we shall be pleased to have statements, not of opinions, but of facts.

Mr. Collado. I think, Senator Green, that we would be glad to answer any questions which you might wish to ask, which may have arisen out of these remarks.

Senator Green. Have you any questions, Senator Shipstead?

Senator Shipstead. No.

Senator Green (acting chairman). Then we will regard these hearings as finished. We thank you all very much for your help.

(Whereupon, at 12:05 p. m., the hearings were concluded.)