

CONCLUSIONS

The prospects for industry in this district appear bright. The most encouraging factor, perhaps, is that community leaders throughout the district are becoming increasingly aware of the potential advantages which would accrue from a more balanced

relationship between industry and agriculture. Particularly in the south is recognition of these advantages growing and in the coming years there should be seen a steady growth of industry, mostly small-scale manufacturing, in that area.

Weldon A. Stein

International Bank Securities

The International Bank for Reconstruction and Development formally began operations on June 25, 1946. Under the Articles of Agreement, 20 per cent of the subscribed capital was to be paid in or be subject to call as needed for operations. Calls for 10 per cent of subscribed capital have already been announced. Two per cent payable in gold or United States dollars was due on or before August 24, and the other 8 per cent payable in the member countries' own currencies is due by November 25, 1946. The Bank has stated that early consideration will be given to calling up the remaining 10 per cent (also payable in the members' currencies) authorized for operations.

The authorized capital of the International Bank is \$10 billion (United States dollars), of which \$9.1 billion is reserved for the countries that were represented at the Bretton Woods conference which drew up the Bank's Articles of Agreement. At the present time, the International Bank has 38 members and a subscribed capital of \$7,670 million, the subscription of the United States being \$3,175 million. On the basis of this membership, paid-in capital by November 25 will amount to \$767 million, \$407.4 million in gold and United States currency, and the equivalent of \$359.6 million in currencies of the other member nations.

Actual lending operations probably will begin this fall. The Bank may make or facilitate loans in any of three ways. It may make or participate in direct loans out of its own funds, corresponding to its unimpaired paid-in capital, surplus and available reserves. Since only 20 per cent of its subscribed capital may be called for the purpose of making or participating in direct loans, and since it now has no surplus or reserves, total loans by this method are at present limited to a maximum of \$1,534 million. The Bank may also make or participate in direct loans out of funds borrowed in the market. Finally, the Bank may guarantee, in whole or in part, loans made by private investors through the usual investment channels.

It is anticipated that borrowers will desire and

the Bank will prefer to make direct loans rather than guarantee private issues. Since demand for loans is likely to be much greater than funds available from paid-in capital, an offering of the Bank's own securities seems likely soon after lending operations begin. Most of these securities probably will be sold in the United States because this nation is about the only member country able to afford large capital exports at present and because general conditions in the capital market here seem to be favorable. Therefore the regulations and principles governing the operation of the Bank which affect the investment status of its securities are of prime interest.

Purposes of the Bank—The purposes of the International Bank may be summarized as follows:

1. To assist in economic reconstruction and development in member countries by facilitating investments for productive purposes.
2. To promote private foreign investment by guaranteeing or participating in loans made by private investors and, when private capital is not available on reasonable terms, to provide financing out of its own resources and from funds raised in the market.
3. To promote the long-range, balanced growth of international trade and the maintenance of equilibrium in balances of payment by encouraging international investment for the development of the productive resources of member nations.
4. To coordinate its financing with international loans made through other channels so that the more useful and more urgent projects will be taken care of first.
5. To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members.

Procedure in Making and Guaranteeing Loans—Additional safeguards have been provided in establishing certain procedures to be followed in making and guaranteeing loans. Applications must be reviewed by a competent committee, which shall include an expert selected by the Governor repre-

senting the member in whose territory the proposed project is located and one or more members of the technical staff of the Bank. This committee must make a careful study of the merits of the proposed project and submit a written report recommending it before a loan or guarantee can be granted.

In considering applications, the Bank must give due regard to the prospects of the borrower being able to meet his obligations under the loan, and must act prudently in the interests both of the borrower and of the member countries as a whole. The Bank is not to grant or guarantee a loan until it is satisfied the borrower could not otherwise secure the funds on reasonable terms. Moreover, the Articles of Agreement provide that "only economic considerations shall be relevant to their (the Bank and its officers) decisions, and these considerations shall be weighed impartially in order to achieve the purposes" of the Bank.

There are other miscellaneous regulations regarding the granting or guaranteeing of loans. If the borrower is other than a member government, both the principal and interest of the loan must be fully guaranteed by the Government, the central bank, or a comparable agency of the member country in which the project is located. No restrictions shall be imposed to the effect that the proceeds of a loan are to be spent in the territory of any particular member. Neither shall the Bank guarantee loans made by others without receiving suitable compensation for its risk.

Restrictions on Use of Funds—The Articles of Agreement place a number of restrictions on the use of the Bank's funds. These restrictions relate mainly to the purposes of the loans and guarantees and the total of loans and guarantees which may be outstanding at any one time.

The purposes of the Bank as listed in the Articles of Agreement, limit loans and guarantees to member nations for productive purposes. A still further restriction, however, is that loans and guarantees are to be made only for specific projects of reconstruction and development, except in special circumstances. To make effective this principle of loans for specific projects only, the Bank must make arrangements to insure that the proceeds of each loan are used only for the purposes intended. In case of direct loans made by the Bank, the proceeds are to be credited to the account of the borrower and are to be drawn on only to meet expenses as they are actually incurred in carrying out the project.

The total amount of direct loans, participations

in loans, and guarantees outstanding at any time can not exceed the total unimpaired subscribed capital, reserves and surplus. On the basis of present membership, total outstandings are limited to \$7,670 million since the Bank has no reserve or surplus as yet. There is no limitation on the amount of loans and guarantees to individual members, the Articles of Agreement merely stating that the facilities of the Bank shall be used "exclusively for the benefit of members" with "equitable consideration" being given to projects for development and reconstruction. The Bank is to give special consideration to "lightening the financial burden and expediting the completion" of the reconstruction and restoration of the economy of members whose metropolitan centers suffered great devastation from enemy action.

Methods of Meeting Defaults—If defaults on loans made, or participated in, or guaranteed by the Bank should occur, provision has been made for meeting them. If the default is the result of a temporary exchange stringency and it appears that relaxation of the conditions of the terms of payment would be in the interest of the parties concerned the Bank may, upon application of the borrower, either modify the terms of payment or make arrangements to accept payment in the member's own currency for a period not to exceed three years. In the latter case, appropriate arrangements must be made regarding the use of such currency and the maintenance of its exchange value.

If such adjustments do not enable the borrower to meet the payments, and the Bank is called upon to meet its liabilities arising from the default, first resort for funds is a special reserve set up for the purpose. The special reserve will consist of commissions received by the Bank from its loans and guarantees. During the first 10 years of its operation the commission charged on the amount of outstanding loans, participations, and guarantees shall not be less than 1 per cent nor more than 1½ per cent per annum. After 10 years the commission rate may be reduced if the accumulated reserve is considered sufficient to justify reduction, or may be raised, if such action is deemed necessary. The special reserve is to be held in liquid form such as the executive directors may decide.

If, or when, the special reserve is exhausted, the Bank may, at its discretion, use other reserves and surplus available to it. This provision will not afford any protection until the Bank has accumulated a reserve and surplus from its loans and guarantees.

Next, the Bank may call an appropriate amount

of the unpaid capital subscriptions; the Articles of Agreement provide for such calls, limited only by the total amount of each country's share subscription, when necessary to meet the Bank's liabilities for interest, other charges, or amortization. Payments may be made at the option of the member either in gold, in United States dollars, or in the currency required to discharge the obligation for which the call was made. Protection against loss from currency depreciation is provided in that payments shall be made in amounts equal in value to the member's liability under the call, regardless of the then existing value of the member's currency. If bank officials believe the default may be of long duration, the Bank may call an additional amount of the unpaid subscriptions not to exceed in any one year 1 per cent of the total subscriptions to: (1) redeem prior to maturity all, or part of, the outstanding principal of any loan in default guaranteed by the Bank, or (2) to repurchase all or part of its own outstanding borrowings.

Security Underlying Own Obligations—To meet its own liabilities the Bank will have the unpaid capital subscriptions which are subject to call to meet defaults and its own assets which will consist primarily of loans made to or guaranteed by member countries.

The relationship between the Bank's resources and liabilities can best be illustrated by a simplified, hypothetical balance sheet. Demand for loans is likely to be so great that it may be anticipated the Bank will lend the maximum amount allowed; and its balance sheet is drawn up as of a time (necessarily several years hence) when such loans are outstanding. If it is assumed:

1. The total subscribed capital is \$7,670 million, that of present membership;
2. That the Bank will call the maximum of 20 per cent of its subscribed capital (\$1,534 million) and that not more than \$1,000 million will be used for making direct loans, since part of the paid-in funds will be in currencies for which there is little demand, and part will be held in reserve;
3. That it will make the maximum loans permitted, namely \$7,670 million (assuming no surplus or reserves will have been accumulated); and
4. That it secures funds for loans, except for \$1,000 million of its paid-in capital, by selling its own bonds; then a simplified balance sheet would appear as follows:

(In millions of U. S. Dollars)	
The Bank Would Own	The Bank Would Owe
Cash (mostly foreign currencies)	Bonds Outstanding
\$ 534	\$6,670
Loans	Capital (paid-in)
7,670	1,534
Total Resources	Total Liabilities and Capital
\$8,204	\$8,204

In addition, as a contingent asset, the Bank would have the right to call on member countries, in case of need, for the unpaid 80 per cent of their capital subscriptions; amounts totaling \$6,136 million, including \$2,540 million callable from the United States Treasury.

It is now possible to point out some relationships between the Bank's resources, both actual and potential, and its liabilities under the conditions assumed above. The amount of the Bank's unpaid capital, callable only to meet liabilities, is of course the most important safety factor. The ratio of the Bank's total resources (including this amount), to its liabilities other than to stockholders would be more than two to one. The unpaid subscription of the United States, amounting to \$2,540 million, would be equal to 38 per cent of the \$6,670 million of bonds outstanding. To meet the other \$4,130 million of its own bonds outstanding (\$6,670 million — \$2,540 million) the Bank would have available (1) loans amounting to \$7,670 million; (2) cash equivalent to \$534 million; and (3) unpaid capital subscriptions of the other members totaling \$3,596 million. This represents a total of \$11,800 million as compared to its remaining bond liabilities of \$4,130 million—a ratio of 2.9 to 1. These relationships would not be disturbed if the Bank should guarantee or participate in some loans instead of using all of its available funds in direct loans since this would only change the composition of its liabilities and not the total.

If the Bank should suspend permanently its operations, which may be authorized by a majority of the total voting power of the Board of Governors, all activities must cease, except those incident to orderly liquidation of its assets and settlement of its obligations. In this event, direct and contingent claims of creditors must be paid before any distribution can be made to members on account of their capital subscriptions. The liability of all members for uncalled capital subscriptions and for depreciation of their own currencies, shall continue until all claims of creditors, direct and contingent, have been paid.

Market for the Securities—In general, the securities are expected to enjoy a good market. The specific nature and terms of the securities are not yet known, but it seems likely that most of them will be long-term maturities. Prospective purchasers include insurance companies, savings banks, commercial banks, trust funds, and charitable and educational institutions. For the time being, the first two types of investor will be largely out of the

market since their investments usually are limited to a list prescribed by state law or state supervisory bodies, and so far only New York State has placed securities of the International Bank on its eligible list for savings banks. While it is believed that all or most states will make the securities eligible for investments of insurance companies and savings banks, such action will take some time. In cases where the state legislatures have to pass on eligibility, it is likely to be 1947 before action can be taken, since most legislatures are not now in session. As soon as the securities are declared eligible, however, it is expected that both types of institutions will provide an active demand for them.

Commercial banks also provide a potential mar-

ket for the International Bank's securities but most of the banks are subject to the legal limitation that investment in the issues of a single maker, other than the United States and its political subdivisions, are limited to 10 per cent of capital and surplus. This requirement would limit commercial bank purchases to about \$600 million.

Investments of trust funds and nonprofit institutions normally are not prescribed by state law and they may provide an early market for relatively large quantities of International Bank securities as their cash holdings are large and the pressure for investment outlets is strong.

Clay J. Anderson

CURRENT CONDITIONS

(Continued from page 1)

glass products, and in meat packing establishments.

A definite upward trend in the number of employed women is apparent in many parts of the district, even in manufacturing industries where the employment of women had declined steadily since the end of the war. While a part of the increase is due to the temporary summer employment of young girls, the need to supplement family income in order to meet the rising cost of living is probably a factor also.

During July, the number of non-veterans receiving unemployment compensation payments as well as the number of Servicemen's Readjustment payments declined from the previous month. Employment of veterans increased but many employers

continue to report a considerable turnover among employed veterans, particularly those in the younger age group.

INDUSTRY

Total industrial activity in the Eighth District in July averaged somewhat higher than in June, primarily as a result of over-all gains in manufacturing operations. The higher level of activity appeared to be general throughout the district and current evidence indicates a continuation of the trend through August.

The increase in manufacturing activity was reflected in a sharp advance in the consumption of electric power by industrial consumers in the major district cities. Total consumption in these cities in July reached a new 1946 peak, 14 per cent higher than in June and only 10 per cent below the

INDUSTRY

CONSUMPTION OF ELECTRICITY

(K.W.H. in thous.)	No. of Cus-tomers*	July, 1946	June, 1946	July, 1945	July, 1946 compared with	
		K.W.H.	K.W.H.	K.W.H.	June, '46	July, '45
Evansville	40	7,359	6,504	10,500	+13%	-30%
Little Rock ..	35	3,442	3,334	3,316	+ 3	+ 4
Louisville	82	20,167	16,652	18,076	+21	+12
Memphis	31	4,195	4,925	6,642	-15	-37
Pine Bluff....	19	1,382	1,146	6,657	+21	-79
St. Louis.....	96	64,173	55,736	67,137	+21	-0-
Totals	303	100,718	88,297	112,328	+14	-10

*Selected industrial customers.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

First nine days						
July, '46	June, '46	July, '45	Aug., '46	Aug., '45	7 mos. '46	7 mos. '45
125,825	125,012	147,534	38,770	42,140	843,792	1,119,275

Source: Terminal Railroad Association of St. Louis.

COAL PRODUCTION

(In thousands of tons)	July, '46 comp. with				
	July, '46	June, '46	July, '45		
Illinois	5,391	5,816	5,460	- 7%	- 1%
Indiana	2,149	2,062	2,309	+ 4	- 7
Kentucky	6,646	6,216	5,259	+ 7	+26
Other Dist. States.....	1,416	1,261	1,378	+12	+ 3
Totals	15,602	15,355	14,406	+ 2	+ 8

AGRICULTURE

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts			Shipments		
	July, 1946	June, 1946	July, 1945	July, 1946	June, 1946	July, 1945
	Cattle and Calves.....	239,544	135,187	153,765	153,179	121,541
Hogs	191,552	77,337	105,174	69,047	37,181	37,748
Horses and Mules..	7,653	8,049	2,829	7,653	8,049	2,429
Sheep	145,499	165,887	112,250	62,493	91,484	41,871
Totals	584,248	386,460	374,018	292,372	258,255	179,387

CASH FARM INCOME

(In thousands of dollars)	June		Cumulative for 6 months		
	1946	1945	1946	1945	1944
	Arkansas	\$ 15,881	\$ 14,152	\$ 111,209	\$ 104,699
Illinois	71,928	88,552	532,348	538,912	583,671
Indiana	40,803	51,344	288,852	295,499	318,138
Kentucky	18,127	20,086	188,997	232,698	185,657
Mississippi	13,422	11,385	97,244	104,100	85,440
Missouri	39,096	52,403	269,515	295,010	309,454
Tennessee	24,929	23,536	145,464	142,671	143,189
Totals	\$224,186	\$261,458	\$1,633,629	\$1,713,589	\$1,723,737