STRICTLY CONFIDENTIAL

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SUMMARY OF THE WHITE INVESTMENT BANK PROPOSAL

Purpose

The purpose of the proposal is to make long-term loans to countries in need of foreign capital for reconstruction and development and to encourage private investors to do the same. If foreign capital is not made available to countries with inadequate gold reserves the White Fund may be unable to succeed in preventing currency depreciations and the introduction of exchange controls. If foreign capital is not made available to countries with large gold reserves, they may use those reserves to finance purchases in the United States, thus obtaining our goods by giving us gold which we do not need and on which we would obtain no interest. Many foreign countries must reconstruct and develop their industrial capacity if they are eventually to pay for their imports with exports.

Functions of the Bank

The Bank can provide all the foreign capital needed for a project or the Bank can cooperate with private investors either by providing part of the foreign capital needed or by guaranteeing private loans. In general the Bank itself is to provide capital only when private investors are unwilling to do so on reasonable terms.

The Bank's Capital

Each member country, whether a creditor or debtor on international account, subscribes a portion of the capital of the Bank, the size of its subscription being determined by a formula which takes account of such factors as national income and foreign trade rather than of capacity to lend internationally. The total capital of the Bank is $10 billion, of which the United States will subscribe approximately one-third. The United Kingdom will probably subscribe about one-tenth.

Each country pays up 20 per cent of its subscription initially and the remainder as called by the Bank, but not more than 20 per cent can be called in any one year and no calls for further payments on subscriptions can be made unless funds are needed for the operations of the Bank. A substantial part of the Bank's capital is to be reserved in the form of unpaid subscriptions as a surety fund for securities guaranteed by the Bank or issued by the Bank.

Subscriptions are made in gold and local currency. The proportion paid in gold will not exceed 20 per cent and will vary with the adequacy of the countries' gold and free exchange holdings.

A country may be required to repurchase with gold its currency held by the Bank up to the amount of 2 per cent of its subscription a year provided that it is not required to give up more than one-half of the net addition to its gold holdings during the preceding year.

The Bank may acquire further resources by selling securities, issued or held by it, unless the member country in which the securities are to be sold objects.

Control over the Bank's Operations

In voting by the Board of Directors, which administers the affairs of the Bank, each country has 1,000 votes plus one vote for each $100,000 share of stock in the Bank which it holds, except that no country is allowed to have more than 25 per cent of the votes. Decisions in general are by simple majority vote. Assuming fifty member countries, the United States would have approximately 25 per cent of the votes, the United Kingdom less than 10 per cent of the votes. It is probable that the countries which supply the resources for most of the Bank's loans will not have a majority vote.

Each subscribing country has certain special veto powers, however. The Bank cannot use the currency of a member country to finance purchases outside that country without its permission. Furthermore, a country can veto the loan of its currency to finance purchases of its own goods if the expenditure would disturb its domestic economy. This would not permit a country to veto use of its currency because it regarded the loan as unsound or not in the best interests of the country, or because the loan was to be repaid in foreign currencies or gold over the further use of which the original lending country would have no control.*

At no time does the special veto power apply to the Bank's use of a country's currency to meet obligations created by securities guaranteed or issued by the Bank. And gold subscribed by a member is also beyond reach of the veto power. One consequence of this is that a debtor country may, to the extent of its gold contribution, be forced to become an international lender through the Bank -- a rôle which it can play only by borrowing more abroad.

Loans Tied to Trade

In general the Bank may use a member's currency only to finance merchandise exports from that country. This means that funds lent by the United States cannot be used by a borrower to purchase supplies in England even though the British product is cheaper or better adapted to the project; and even though such use of our dollars would help to correct an unbalanced international position that was bringing unwanted gold to the United States.

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* There is a provision which may be interpreted to give a member country general veto power over the use of its currency. This provision says that the foreign exchange shall be provided in the currency of the country in which the loan will be spent, and only with the approval of that country. However, here again the emphasis seems to be on the effects of the spending of the loan in the lending country and it is not clear that a country could veto the lending of its currency on other grounds.

It means also that funds needed for local labor and material must be supplied by the borrowing country, but that is ordinarily good practice.

While loans tied to trade are the general rule, there are important exceptions. The Bank can lend its gold for use in any country. It can even make its dollars available for purchases from England or other advantageous sources of supply if the United States consents. And in special cases a country may borrow from the Fund for local expenditures.

Finally, it should be noted that under the repayment provisions of the plan some shifting of tied loans may occur. The Bank may accept repayment in currencies other than those in which it has made a loan. If a dollar loan is repaid in sterling, the Bank may then lend the sterling freely for purchases of goods in England; but it cannot lend the sterling for purchases of American goods without British consent even though it represents an American contribution.

Conditions Governing the Bank's Loans

No loans may be made to members which can obtain them on Government credit or otherwise from private sources on conditions which the Bank deems reasonable. Loans made by the Bank or guaranteed by the Bank must be to or through the Government of a member country, and guaranteed by the Government of the borrowing country. They must serve directly or indirectly to raise the productivity of the borrowing country and the prospects must be favorable to the servicing of the loan. Rates of interest charged must be reasonable and the schedule of repayment appropriate to the character of the project and the balance of payments prospects of the borrowing country.

Distribution of Earnings

Earnings are distributed in proportion to shares of stock held. If the currencies of certain countries remain in the Bank, either because borrowing countries do not want them or because the subscribing countries veto their use, those countries nevertheless share pro rata in the earnings derived from the active currencies lent by the Bank. To meet this situation there is a provision for using idle currencies to repurchase shares. Retirement of the shares of countries which cannot play the rôle of lender would stop the diversion of earnings to them; but this provision cannot operate if the idle currency is less than 20 per cent of a member's subscription -- i.e. the equivalent of the full initial subscription -- and it may in practice be wholly inoperative if non-lending countries have a majority of the votes.

A.B./W.R.G.
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