

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 21, 1947

To Chairman Eccles

Subject: Address by Mr. McCloy in New

From Mr. Knapp

York on April 18.

I believe you will be interested to read the following paragraphs from an address delivered by Mr. McCloy in New York City on April 18, 1947:

"Before I close, I would like to say a few words about two questions which frequently are raised in connection with the organization of the Bank. One is whether the Bank will be unduly influenced by political questions, and the other is whether the representation of potential borrowers on the Bank's Board of Executive Directors will result in improvident lending.

"The Articles of the Bank provide expressly that loans shall only be made for productive purposes -- and by several other provisions which restrict the character of the loans which can be made, political loans as such are definitely excluded. The Bank need only follow its mandate and act in the independent manner which the Articles clearly contemplate to insure that no purely political loans are made. It is the firm intention of the administration of the Bank that that mandate be followed. Having said this and not by way of hedging the significance of what I have said, I wish to add this comment in order to be realistic. The line between political and economic is not always sharply drawn. We all know political conditions can affect the economic and vice versa. What I take the mandate of the Articles to be is to judge the loans which are made in the light of all circumstances which bear upon their productivity and the accomplishment of the purposes of the Bank as they are defined in its charter. We can't and won't grant loans in order to accomplish political objectives; we can and will refuse loans, where the political uncertainties are so great as to make a loan economically unsound.

"So far as the Executive Directors are concerned, it is true that a number of them represent potential borrowers, but a controlling number do not. The Directors act only after a favorable recommendation for a loan is made by the administration; in fact, the charter of the Bank forbids any loan being made that is disapproved by a loan committee which is composed, in practice, of the officers of the Bank. Furthermore, it has been my experience after a very short time thus far with the Bank, that the Directors have every desire to act as an objective body, conscious of their responsibility for the success of the Bank. They are men of distinction, attainments and self-respect. There is a sense of collective responsibility among the Board which may be one of the most important

"factors in the development of the Bank and the part that it will play in the course of its operations. If the attitude of the members of the Board of Directors is indicative of the state of mind of the member countries, there will be developed among the members a sense of co-responsibility for the obligations to the Bank. If this be the case, we may find that there has been introduced into the field of international investment a most effective stabilizing factor. This attitude may take the form of the strictest adherence by the borrower to its own obligations on the one hand and a collective effort on the part of the members to see that no member finds itself in the position where it cannot meet an obligation to the Bank."