CREDIT ASPECTS OF INTERNATIONAL FINANCE

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Introduction

Many members attended AIB seminar on International Monetary Fund.

Different approach to the problem

I. The interwar experience: a practical lesson on what not to do.

A. The international investment position of the United States.

(Excluding war debts)

Item	End of year - 1919	1930	1933	1939
U.S. investments abroad:				
Long-term:				
Direct......................	3.9	8.0	7.8	7.0
Portfolio....................	2.6	7.2	6.0	3.8
Total long-term...........	6.5	15.2	13.8	10.8
Total short-term.........	.5	2.0	1.1	.6
Total long- and short-term...	7.0	17.2	14.9	11.4
Foreign investments in U.S.:				
Long-term:				
Direct......................	.9	1.4[1]	1.8[2]	2.0
Portfolio[3].................	1.6	4.3[1]	3.1[2]	4.3
Total long-term...........	2.5	5.7	4.9	6.3
Total short-term.........	.8	2.7	.5	3.3
Total long- and short-term...	3.3	8.4	5.4	9.6
Net creditor position of the U.S.:				
On long-term account.......	4.0	9.5	8.9	4.5
On short-term account......	-.3[4]	-.7[4]	.6	-2.7[4]
On long- and short-term account.......	3.7	8.8	9.5	1.8

[1]1929 data. [2]1934 data. [3]Includes misc. investments. [4]Net debtor position. Note: All data for 1919 and the data for 1929 on foreign long-term investments in U.S. are unofficial ests; other data are ests. of Dept. of Com.

B. The new era of the 20's

1. We invested in long-term $1 billion a year abroad.

2. Factors responsible

   a. High yields

      (1) Insistent demands just after the war.
      Many creditors with unblemished records.

      (2) Traditional credit sources closed.

   b. Salesmanship

      Investment bankers

         Cuba and Peru

C. The 1930's

1. The depression

2. Financial instability

   a. Nordwolle - Credit-Anstal
   b. Darmstadter and Nationalbank
   c. Britain leaves gold standard

3. Defaults and exchange controls

4. Political instability

D. Some lessons from these experiences

1. Prosperity, like peace, is unlimited.

   The more others have the more there is for each to enjoy.

2. Prosperity, like health, is indivisible.

   Can't localize areas of depression.

3. Debtors and creditors have responsibilities.

   a. Debtor to pay
   b. Creditor not to be unreasonable
   c. National economies vs. individual borrowers.

      Consolidated vs. parent company only statements.

II. A pattern for international relations

A. Dumbarton Oaks

1. General Assembly - all members
2. The Security Council - peace and security

   5 + 6 members (voting?)

3. International Court of Justice
4. The Secretariat
5. The Economic and Social Council - prosperity

   a. Food and Agriculture
   b. International Trade Body

c. International Monetary Fund

(1) Exchange stability without rigidity
(2) Tiding over temporary needs

d. International Bank for Reconstruction and Development

B. The International Bank for Reconstruction and Development

1. Principles

a. Long-term capital investment
b. Restore economies destroyed by the war
c. Develop productive resources of less developed countries
d. Balanced growth of world trade

2. Capital subscriptions

a. Amounts

(1) Total $9,100 million
(2) U.S. $3,175 million - 35%

b. Division

(1) For direct lending - 20%
(2) For guarantee fund - 80%

c. Payment

(1) 2% initial gold or $
(2) 8% more within a year in currency.
(3) Remainder as needed.

d. Liability - unpaid portion of subscription

3. Activities

a. Introduction

(1) Facilitate private lending
(2) Guarantee loans made by others
(3) Participate in or make loans directly

b. Amounts

(1) Not over paid in capital plus surplus for direct loans - 20%

(2) Not over 100% of subscribed capital

c. Guarantee of loans

(1) Conditions

(a) Must be guaranteed by "borrowing" member

(b) Must be approved by member where funds are raised

(c) Must be approved by member in whose currency it is denominated

(2) Commission

1-1½% on outstandings for first ten years

d. Direct loans

(1) Out of its own funds
(2) Out of funds borrowed by the bank

(a) Must have approval of member where raised
(b) Must have approval of member whose currency is designated

4. Management

a. Board of governors - 1 from each member.

Majority of quota votes decides

b. Executive directors

(1) Number

(a) 5 appointed by the largest quota members
(b) 7 elected by remaining members - 2-year terms

(2) Vote by quotas

c. President and staff

d. Votes 250 + 1 per share or $\frac{\text{subscription}}{\$100,000}$

Total $102,000

U.S. - $32,000 or 31.4%