

Genesis of Bank with emphasis on composition of Board of Directors prior to July 1945.

1. Bank established in February 1934 by Executive Order.
2. Operated from 1934 to July 1945 under aegis of Mr. Jesse Jones as Federal Loan Administrator. Later (1942) under Mr. Crowley as Foreign Economic Administrator.
3. Mr. Jones and Mr. Crowley together with President of Bank dictated policies of Bank.
4. Board of Directors was part time and called into session irregularly - more to ratify acts of operating officers rather than establish policies. Neither charter nor statutes of Congress prescribed qualifications for Board. Generally representatives of State, Commerce, Treasury and Agriculture as well as of Bank staff and RFC comprised Board.
5. From 1934 - 1940 Bank activities largely commercial. Beginning in 1940 political loans made to Latin American countries. State Department had large voice in these loans. Neither Charter of Bank nor statutes of Congress affecting Bank prescribed standards for loans.

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Act of July 31, 1945 established Bank as independent permanent agency with full-time Board of Directors. (See provisions of Act with respect to make-up of Board - particularly State representative.)

1. Established standard for all loans. "Loans so far as possible consistently with carrying out the purpose of act shall \*\*\*\*\* in the judgment of Board of Directors offer reasonable assurance of repayment."
2. Board otherwise vested with responsibility for carrying out Act and intention of Congress. Charged with duties and obligations.
3. Board accountable to Congress not Executive. Annual report, etc.

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All this is not to say that Board of Directors (full-time members) question that policies and activities of Bank should be divorced from and be carried out with disregard of foreign policy of government as formulated by State Department. Never has been any question with Board that policies of Board should compliment and, in fact, implement general foreign policies. Membership of Secretary of State or his appointee welcome and indeed desired.

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In fact it may be accurately stated that Board has never acted over opposition of State Department member.

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To extent that difficulty has occurred between State and Board, it may be attributed to the following:

1. Failure of State to appreciate fully (despite fact it would be first to deny it) that Board of Directors has specific and definite responsibilities to Congress which it must meet while attempting at same time to meet desires of State Department. The distinction between set-up of Board prior to July 1945 and presently has not been grasped in some quarters even today. There has been the tendency to think of Bank as it existed and operated prior to July 1945 at which time Congress prescribed standards and responsibilities in not too uncertain language.

2. Tendency of State to treat its function on Board as part-time. Representative of State has other duties which occupy his time. Attendance record -- out of approximately 60 meetings since organization of Board in December 1945, Mr. Clayton present at approximately 22. Since July 1946 he was present at approximately 10 out of 33 meetings. Bank has real responsibility and its work is great. In Board's desire to ascertain and be guided by foreign policy of State, it is difficult for Board when representative of State attends so infrequently and is unavailable for day-to-day administrative and policy decisions.

3. While it is again emphasized that Board has never acted against desires of State (Czechoslovakia, etc.), it might be said by State that Bank has not always acted affirmatively as demanded by State. This is precisely where Board is caught in dilemma. It can refrain from acting and still comply with the mandate imposed on it by Congress. It cannot, however, always act affirmatively and meet the mandate. But even here Board has earnestly striven to meet desires of State. Has frequently resolved doubt in favor of a loan (France, etc.).

4. It must be recognized that activities of Bank between July 1945 and ensuing year or so were more political than its traditional business. Time of reconstruction loans, etc., has passed. Commercial credits again primary purpose of Bank and funds needed for this. Here again policies of State not to be disregarded but admittedly such activities do not have strong political implications that reconstruction loans had.

5. It should be emphasized that Bank should remain as it is - a financial institution. Statute should not be altered to permit it to be used primarily as political instrument. If occasions arise which demand purely political financial gestures, State should seek other means - as for instance grant-in-aid.