

# I

## Loans to Latin America for the Industrial Development of Latin America

1. Latin America presents a remarkable opportunity for economic development. Only capital and technical skill are needed to develop the area so that it could provide for a much larger population, for a higher standard of living and a greatly expanded foreign trade.

Latin America has the full natural resources of a continent still undeveloped. The industrial revolution has but barely begun in large areas in Latin America. It has a variety of climate, soil, harbors, minerals, valuable forest products and great agricultural possibilities.

2. If Latin America could obtain sufficient capital under favorable terms and conditions and if that capital could be devoted exclusively to productive development of the various countries, Latin America could within a generation become a prosperous and friendly neighbor and a great market for American products. It is quite within the realm of possibility that if properly developed our economic relations with Latin America could become within a generation as important as our economic relations with the rest of the world combined.

3. We have now a surfeit of both the capital and technical skill that Latin America so badly needs. To raise Latin America from its present status to that of a progressive, prosperous neighbor calls for a bold program conceived and executed in a spirit appropriate to the possibilities and involving economic aid in amounts commensurate with the task and provided under conditions consonant with our Good Neighbor policy. Each of the countries to the south of us have, of course, their special problems and economic assistance to each of them will vary in

form, amount, terms and conditions. Yet all of the Latin American countries have in common the one handicap which we can remove to our mutual advantage, i.e., shortage of capital and technical skill.

4. Most instances of our recent assistance to Latin American countries are not the kind contemplated in this memorandum. Small loans used indirectly to provide government funds for the purpose of helping defaulted Latin American countries service their debts to foreign investors or to influence local political alignments are ineffective for the objectives herein envisaged. Nor are loans to facilitate exports to those countries on the scale undertaken, however desirable on their own account sufficient. They touch only one small part of the problem and on a scale absurdly small in proportion to the broad task that could be performed.

Economic developments to Latin America could be an important part of a domestic recovery program. It presents to us an even more important part of our international political program of peace, security and encouragement of democracy. This is no time for a timorous or traditional approach to the task. Now is the time to harmonize our economic program with our new political program of a Good Neighbor policy. Here is the opportunity for the exercise of great economic statesmanship at a point in history which may well prove decisive.

5. What can we do about it now?

(a) The program should be placed under the supervision of a Cabinet member who approaches the problem from a broad gauged point of view, who would not be bound by the traditions of his organization or hamstrung by deep-rooted hierarchy.

(b) Create by legislation a government bank whose sole function should be to assist in promoting the long-run economic development of Latin America.

The bank should have a capital of \$300 million in common stock, purchased entirely by the government, with the power to issue \$700 million in bonds guaranteed by the government as to interest and principal. The bank would have the power to issue an additional billion dollars in guaranteed bonds as the need arose. The purchase of common stock to \$300 million might come out of the gold profit now in the Stabilization Fund or out of the \$1.5 billion unissued silver certificates. Thus it would not involve an increase in the deficit.

6. The bank could make three types of loans.

(a) The most important type would be in the form of long-term loans for productive purposes. The loans in general should be devoted to domestic rehabilitation programs, including public works, creation of new industries and the modernization and expansion of existing industries. The program selecting the types of industries to be encouraged could be worked out by a joint planning board. The loans should be made under the following terms and conditions:

- (1) Loans to be offered at low rates of interest, not more than 1 percent in excess of the cost of borrowing by the bank.
- (2) The proceeds of the loan must be used exclusively for the purpose of developing public works and industrial enter-

prises of a kind which will add to the productivity of the borrowing country in the not too distant future. The investments should be such as would eventually provide foreign exchange to repay the loans and which would be of a kind to increase trade with the United States.

(3) The borrowing country should be required to provide in local currency a proportion of the amount invested by the bank.

(4) Control and equity ownership of the projects must remain in the hands of the borrowing government or its nationals, although the United States might retain the power of active technical participation to insure efficient expenditure of the funds. At least 75 percent of the dollar loans made available must be expended in the United States and all imported goods or foreign services utilized in the construction of the project must be purchased in the United States.

(b) Extension of gold or silver loans for purposes of monetary stability. These loans need not be large in amount and should be for a short term and renewable. The loan should be so safeguarded as to prevent its use for purposes not contributing to the economic development of the borrowing country.

(c) The establishment of revolving credits for the financing of American exports to Latin America.

Loans made under the conditions indicated above will not only make substantial contributions to recovery now but will pave the path for greater business during the coming decades. It will serve to insure for the United States in the years to come a greater share of a greater volume of foreign trade.

There will likewise be much smaller losses in the loans than has been true in the past. One of the important reasons why loans to Latin American countries have had such a bad record of default is that the effective rates of interest have been exorbitantly high, and the bulk of the funds borrowed have not been employed for productive purposes or when so employed have been inefficiently used. The long run productivity of South American industries was not developed to provide the resources to meet the service charges. Economic enterprise in Latin America as developed by private foreign capital in the past has been directed toward exploiting those countries without adequate attention to their fundamental capacity and long-run interests. A low rate of interest accompanied by safeguards that the fund will be efficiently and wisely used will provide a far greater degree of security that the loans will be gladly and voluntarily repaid.

Furthermore, loans could be made under conditions which would improve our trade relations and protect them against further incursions by countries pursuing practices inimical to our trade. The proposed loans should be supplemented by measures designed to increase the ability of Latin American countries to meet their obligations that would be involved in the adoption of the above proposals. These measures could include stimulation of American tourist travel to Latin America, through grants of special rates on American vessels and by promotion of improved travel routes and by careful surveys of Latin American products with a view of promoting increased consumption in the United States of Latin American products, etc.

The above program is not dollar diplomacy; it is essentially different from so-called dollar diplomacy in that the latter meant the exploitation of a weak country by private American commercial and industrial interests with the aid of the American Government. This program would have as its base the development of industrial enterprises in Latin America that would be under the control and ownership of the borrowing country or their nationals and that there is no part of the program which envisages any action by the United States Government or threat of such action, subtle or overt, which would interfere with the inherent sovereignty and rights of those countries. The program is completely in the spirit of democracy for the objective of the mutual advantage of the United States and Latin America.

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