

S E C R E T

FOR CIRCULATION TO:

Gov. Draper ✓

Gov. Evans

Gov. Vardaman



(Please return to Chairman's Office)

*sent to Mr. Bancroft 8/13 3 ✓
returned 9/17.*

Office Correspondence

Date August 21, 1946

To Members of the Board

Subject: _____

From Chairman Eccles

On August 13, the National Advisory Council on International Monetary and Financial Problems considered a proposed Export-Import Bank loan to Brazil in the amount of 50 million dollars to finance imports of railroad and port equipment from the United States. The Brazilian Government had originally approached the Export-Import Bank for a general development loan of 350 to 400 million dollars. The Bank had refused to consider any loan of this magnitude, but together with the State Department had undertaken preliminary negotiations for a 50 million dollar loan which had reached a fairly advanced stage before the National Advisory Council was consulted on the matter.

Attached are excerpts from the draft minutes of the meeting containing a summary of the remarks made by me on this subject.

Attachment

Remarks by Chairman Eccles in connection with proposed loan
to Brazil

(Excerpts from draft minutes for N.A.C. meeting of August 13)

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Mr. Eccles said that this was the first time this matter had been discussed by the Council and that he did not feel any obligation for any commitments or implied commitments or impressions that might have been given. He believed the matter must be considered from the standpoint of the public interest of our own country. He felt that it was unfortunate that this matter had gone as far as it had because it placed upon this Government an implied obligation that might not otherwise exist.

Need for loan. - Mr. Eccles thought the pressures on our own economy for emergency loans were such that we would be doing well to take care only of loans for urgent reconstruction needs. Credits for long-term development should be handled in the future by the World Bank. In the case of countries whose credit would be such that the World Bank would not take them but to whom this country felt that development loans should be made, the loans could be made by the Export-Import Bank in the future. We should also take into account each country's gold and dollar holdings in relation not only to the country's needs but also to world requirements. We have to make some allocations of credit. There are not enough funds available in the World Bank and elsewhere unless these countries use some of the gold and dollars and other available supplies of credits. Brazil is in an exceptionally favorable gold and dollar position in relation to her needs. She did not suffer devastation from the war and her need for rehabilitation is nothing compared to the needs of some of the other countries of the world.

Domestic Inflationary Situation. - Mr. Eccles added that aside from these considerations we must look at the economic facts of the present domestic situation. He recalled the fight the President and the Government are making to prevent inflation, and the President's recent request to all divisions of the Government to defer expenditures. Up to date we are losing ground; prices are going up and the budget is not in balance. Unless we win the fight, all these foreign credits are a sheer mirage. The credits are only of value if the foreign countries can buy goods at prices which will give them what they need. Furthermore, there is an acute shortage in copper, steel and practically everything else that Brazil wants. We are unable in our own country to carry out a much-needed program of development.

Mr. Eccles recognized that under the relief program for food there was pressure on our markets but certain things had to be done to win the peace and he thought there was a great difference between rehabilitation and food relief on the one hand and longer-term development on the other. He was not opposed to development loans as such but the question was one of timing. He recommended telling the Brazilians we were favorable to this

credit just as soon as we have won our battle on the inflationary front and that we hoped that within a period of six months or so we would have reached a point of stabilization where we could begin to supply their more urgent needs.

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(In the discussion which followed, Mr. Clayton pointed out that the Export-Import Bank had just made a 40 million dollar loan to Poland where the chances of repayment would be much less than in the Brazilian case, and that it would "look very bad to Brazil" if it were refused a similar loan.)

Mr. Eccles said that the Polish situation came up sometime ago and it had been presented as necessary to the rehabilitation of Europe through the provision of coal. It was said that Poland had a surplus of coal and that in the American and British sectors of Germany, as well as in Holland, Belgium, France, Sweden and Norway there was an extreme shortage of coal which was needed to get industries going. Rehabilitating Europe could not be done without getting coal and this was the cheapest way of getting it. The Brazilian situation does not involve in any sense a comparable emergency. While he recognized the political aspect, he thought that the economic facts were in favor of the Polish loan and against the Brazilian loan.

Limited Export-Import Bank Funds. - Mr. Eccles further pointed out that the Export-Import Bank has only a very limited amount of credit available and that we may have great difficulty in getting additional lending authority for the Bank. Therefore, it may be well to husband these resources so as to take care of situations which the World Bank may not be able to handle. This credit is the kind the World Bank will take but there may arise other credits which will have to be granted and which the World Bank cannot take. It would be well for the Brazilians to use \$50 million out of their present reserves, which are very large compared to anything they had in the pre-war period.

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(Mr. Gaston of the Export-Import Bank said that he recommended this loan because it was in conformity with the traditional function of the Export-Import Bank, i.e. "promoting our foreign trade on a sound basis".)

Mr. Eccles said that we did not have to worry about our exports. We could export all that foreign countries could find dollars to pay for, and the real problem was what imports we would be willing to take.

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The proposal was approved, Mr. Eccles dissenting.