

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 14, 1947

To Chairman Eccles

Subject: Proposed joint United States-

From Mr. Knapp

Mexican Financial Committee

The members of the National Advisory Council are being requested to give telephone clearance to the action recommended by the Staff Committee in the attached paper. It is desired to obtain Council approval for this action before the meeting with the Aldrich Committee next Thursday. Will you please inform me of your vote on this matter.

The question relates to the formation of a joint committee of Mexican and American investment bankers to study the problem of the investment of American capital in Mexico. The State Department has already given its blessing to this project through a letter to Mr. Hopkinson, President of the Investment Bankers Association, but Mr. Hopkinson has requested that clearance be obtained from the N.A.C.

I am sure you will find the proposed action acceptable. You will note that it does not commit the Council to approve of the specific program of cooperation which may be worked out between the private U.S. and Mexican interests.

Attachment
(N.A.C. Document No. 519)

SECRET

National Advisory Council
Document No. 519
October 10, 1947

MEMORANDUM To: National Advisory Council

From: National Advisory Council Staff Committee

Subject: Proposed Joint United States-Mexican Financial Committee

1. Background

At the joint meeting of the National Advisory Council and the Aldrich Committee on May 12, 1947, the President of the Investment Bankers Association of America referred to a proposal, which had arisen from the spring meeting of the Texas Group of the Investment Bankers Association at Monterrey, Mexico, concerning the establishment of a joint United States-Mexican Financial Committee. The Secretary of the Treasury of Mexico had indicated he would be pleased to assist in forming a joint committee of Mexican and American investment bankers to study the problem of the investment of American capital in Mexico. He had offered to appoint the Mexican members and to issue invitations to American nominees whose names might be suggested. Subsequently, the Texas Group decided that the appointment of the American members should be made by the President of the Investment Bankers Association and that, if possible, the "blessing" of the State Department should be obtained.

On April 26, 1947, the matter was referred to the Under Secretary for Economic Affairs of the State Department with a request for advice as to what the State Department's attitude would be towards such a joint committee and whether a new treaty with Mexico was being negotiated and, if so, whether it would contain a special clause against expropriation of United States investments in Mexico.

A reply to this letter by the Assistant Secretary of State for Economic Affairs stated that the State Department considered the proposal to be a constructive development and expressed the hope that the Department would be kept informed of progress made. The reply further stated that the State Department favors a new treaty of Friendship, Commerce, and Navigation with Mexico, that it hoped to embark on negotiations in the near future, that it is not the policy of the State Department in such negotiations to insist on guarantees by foreign governments against the expropriation or nationalization of the property of United States citizens in foreign countries, but that it is the policy to insist that property of United States citizens will not be taken by the foreign government without due process of law and without the prompt payment of just and effective compensation.

The President of the Investment Bankers Association of June 12, 1947, referred to this reply and asked for clarification as to whether it meant

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the National Advisory Council had given further consideration to the matter and desired him to proceed with the appointment of the United States members of such a joint group and to arrange with Secretary Beteta for similar action in Mexico. The third paragraph of his letter reads as follows:

"At that time I understood that Mr. Dittmar and I would be kept advised of the desires of the National Advisory Council, and that we would govern our actions accordingly, which meant that nothing formal would be done until we had learned the wishes of the National Advisory Council and had received any suggestions they might care to make for our further procedure."

At the joint Council-Aldrich Committee meeting of May 12, the Acting Chairman, Mr. Eccles, suggested that this matter be put on the Council's agenda after the Staff Committee had had an opportunity to prepare a report.

Recent information (NAC Document No. 512) indicates that at the meeting of the Investment Bankers Association which took place shortly after the joint Council-Aldrich Committee meeting, the President of the Association was authorized to appoint the American members of the committee. The Secretary of Finance and Public Credit in Mexico has stated that the matter was discussed at the convention of the Mexican Bankers Association and that the Mexican members of the proposed group have been appointed. The President of the American Investment Bankers Association is prepared to take corresponding action but feels it proper to await authorization from the National Advisory Council.

2. Discussion

The specific purposes of the proposed Committee, as described in an address at the Monterrey meeting would be to "make a thorough study of the problem of American individual and institutional investors making investments in Mexico" and produce specific recommendations; also to "invite groups of American investment and commercial bankers and industrialists to visit Mexico". However, the program, of which the establishment of this Committee constitutes one step, includes such matters as having the Mexican Government give proper guarantees regarding the protection of foreign investments in Mexico, under existing laws; making necessary arrangements for dollar exchange to pay interest, principal and dividend payments on investments held by American investors; and acquainting the Securities and Exchange Commission and the New York Stock Exchange with Mexican investments (See page 9, NAC Document No. 476).

The broader problem associated with this particular case is the extent to which the National Advisory Council desires to give official encouragement to United States private foreign investment activities and to coordinate such activities with United States Government foreign lending operations.

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The problem arose in a different form during the spring of 1946 when the Council discussed alternative State Department replies to a letter from Kuhn, Loeb and Company inquiring whether the State Department would offer any objection to a proposed issue of Dutch securities in the United States market. The Council's discussion at that time was inconclusive.

3. Recommendation

The following action is submitted for the consideration of the National Advisory Council:

The National Advisory Council approves the transmission of a letter from the Assistant Secretary of State for Economic Affairs informing the President of the Investment Bankers Association that the Council considers the establishment of committees such as the proposed joint committee of United States investment bankers and Mexican financial interests for the purpose of studying the problem of private United States investment in Mexico to be in harmony with the foreign financial policies of the United States Government.