

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date March 15, 1948

To Chairman Eccles and Governor Szymczak

Subject: Lending Policy in Latin

From Mr. Knapp

America

A real row seems to be coming up over the question of lending policy in Latin America. I am giving you this brief note on the subject pending further study.

The Bogota Conference of the American Republics, which convenes at the end of this month, is going to consider among other things a draft Inter-American Economic Agreement, which has been prepared by a subcommittee of the Pan American Union. As you know, the Latin Americans are very dissatisfied with the amount of financial assistance which they have received since the end of the war, and in particular with the fact that no loans have yet been made in Latin America by the International Bank. A number of countries (notably Mexico, Colombia, and Peru) have been advocating the creation of an inter-American fund and an inter-American bank to deal with Latin American needs. Although the present draft agreement makes no provision for such institutions, several of the Latin American countries are expected to press such proposals at the Conference.

The Staff Committee has agreed upon a paper on this subject which will be presented at the next meeting of the National Advisory Council, recommending that the U.S. delegation to the Bogota Conference be instructed to oppose the creation of any kind of an inter-American financial institution. However, the State Department, moved very largely by purely political considerations, wants to do something for the Latinos, although the other agencies have not so far recognized that any real need for action exists.

Right in the middle of these discussions, a bombshell was dropped in the form of a letter dated March 4 addressed to Chairman Eaton of the House Foreign Affairs Committee, by Mr. Bohlen of the State Department, summarizing the State Department's proposals for foreign aid programs during the coming year. A memorandum attached to Mr. Bohlen's letter contains the following statement:

"The Executive Branch of the Government expects to ask the Congress to increase the lending authority of the Export-Import Bank by \$500 million for loans to Latin America. The State Department plans to assist in the presentation of this request to the Congress. The only action required by Congress is the raising of the present lending authority of the Export-Import Bank, no appropriation request is necessary."

This letter was made public by Mr. Eaton on March 8, apparently without authorization from the Department of State. In any case, the State Department obviously was going way out of bounds to make such a suggestion to the House Committee without consulting the National Advisory Council. Indeed, it is my understanding that while such a proposition had been discussed with Bill Martin, even the Export-Import Bank was not aware that it was to be included in any letter to Mr. Eaton.

Meanwhile, the situation has been further complicated by a long letter from Gene Black to Secretary Snyder, as Chairman of the National Advisory Council, under date of March 8, stating in the most vigorous terms the view of the International Bank that no new inter-American bank should be created and that it would be a great mistake for the United States Government to embark on a large-scale direct lending program in Latin America. Specifically the letter asserts that the Export-Import Bank already has ample uncommitted funds to cover any special needs for direct credits to Latin America. However, Mr. Black suggests that if it is really felt necessary to do something for Latin America at the present time, study might be given to the possibility of guaranteeing private investments in that area or possibly establishing a special fund in the Export-Import Bank to provide equity capital for Latin American enterprises with a view to its later transfer to private hands.

Clearly there are very wide divergencies of view at the present time, except for the general agreement that no new inter-American institutions should be created. It may prove difficult to reconcile these differences of opinion before the Bogota Conference convenes.