

March 24, 1948

Governor Szymczak

National Advisory Council

Mr. Knapp

meeting tomorrow

I should like to give you the following comments concerning the items on the National Advisory Council agenda tomorrow.

1. Financial assistance for Latin America

Reference is made to my memorandum of March 15 describing the situation which was developing with respect to Latin American financing.

The Export-Import Bank and the State Department have now presented to the Council a statement of the reasons why the Congress should be requested to authorize a 500 million dollar increase in the lending authority of the Export-Import Bank in order to enable that Bank to expand its operations in Latin America (see attached N.A.C. Document No. 641). Please note that the legislation would not earmark the funds for this purpose, but the justification for the increased lending authority would rest almost entirely upon the alleged Latin American needs.

This paper was reviewed at a meeting of the Staff Committee yesterday afternoon, and the majority of the Committee approved forwarding it to the Council with the recommendation that the proposed action be accepted. However, I dissented from this conclusion, and should like to make my position clear as follows:

(1) I think it might be desirable to get an additional 500 million dollars of lending authority for the Export-Import Bank in order to be better prepared for contingencies all over the world. It can be argued that the present unused lending authority of the Export-Import Bank (about 500 million dollars) is not a safe margin within which to operate in the world today.

(2) I do not believe, however, that it is wise to seek this increase in lending authority almost exclusively for the sake of expanding Export-Import Bank operations in Latin America. The argument in favor of such action put forward in N.A.C. Document No. 641 seems to me deficient in the following respects:

(a) Although the paper makes a lot of sweeping statements about the great need for investment in the Latin American Continent, it does not suggest which countries are in need of funds which

cannot be obtained from existing sources (including the remaining lending authority of the Export-Import Bank).

(b) It scarcely mentions the problem of repayment, and presents no analysis of the capacity to pay of individual Latin American countries.

(c) Although it states that the increase in lending authority "is required to meet legitimate and pressing development financing requirements" in Latin America, the Export-Import Bank and State Department people admit that it is unlikely that opportunities could be found for loans of this magnitude except over a period of three or four years.

(d) Perhaps more importantly the paper gives no real answer to the question of how this expansion in Export-Import Bank activity is to be reconciled with the lending program in Latin America of the International Bank. You will recall that Gene Black, in his recent letter to Secretary Snyder (H.A.C. Document No. 625), stated that "there is every indication that the International Bank now has, and will in any event for the next few years continue to have, sufficient funds at its disposal to make all the sound foreign loans which may be required for Latin American public capital projects, and probably for some strategic industrial projects as well". He suggested that such remaining projects as were economically justifiable could probably be handled for the most part by private capital, and that "the present uncommitted funds of the Export-Import Bank appear amply sufficient to cover any case where the United States, for political reasons or otherwise, should desire to make a long-term Latin American development loan which the International Bank is either unwilling or unable to make. However, I am convinced that the Eximbank should not, as a matter of policy, make such long-term development loans except under the most exceptional circumstances."

In general, I would subscribe to these views. I do think that the International Bank has been excessively

cautious in its Latin American lending policy, but the remedy for this is for the Council to press the Bank, through the U.S. Executive Director and otherwise, to expedite and liberalize its consideration of Latin American applications. The present policy of the U.S. Government is to refer loan applications so far as possible to the International Bank; however, the present proposal marks a sharp reversal of this policy and if adopted I feel sure that the International Bank will be virtually forced out of business in the Latin American field. It should be recalled that Export-Import Bank money is cheaper than International Bank money, and if the proposed legislation is passed, I do not think it will be possible to force Latin American countries which can present justified loan applications to seek the financing from the International Bank instead of from the Export-Import Bank.

(e) Quite obviously this proposal is really a political maneuver designed to win Latin American favor at the Bogota Conference. No doubt there is something to be said for it from this point of view. I wonder, however, whether even as a political gesture it may not boomerang. The State Department and Export-Import Bank people emphasize that the mere obtaining of legislative authority is no commitment to make loans, and that in fact this lending authority would probably be used only over a period of several years. It seems to me, however, that if the proposal is adopted the Latin American countries will be led to expect immediate loans of considerable magnitude, and that if they do not get them the United States may be accused of bad faith and may well lose rather than gain political favor.

One final remark: as a practical matter it may be impossible to reject this proposal at the present time, simply because there has already been public announcement of the State Department's intention to seek such legislation (see my memorandum of March 15). Thus our hand may be forced, but it seems to me that the State Department should be reprimanded for having made its statement to the House Foreign Affairs Committee without any prior consultation with the National Advisory Council.

2. Settlement of 500 million dollar wartime financial aid to China

The background on this matter is presented in the attached paper.

To: Governor Szymczak

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During the war, as a "financial counterpart" to lend lease, China was provided with special financial aid from the United States Treasury in the amount of 500 million dollars. A small amount of this was used to purchase textiles and bank notes, but the bulk of it was either (a) kept in the form of dollars which were pledged as collateral for certain securities sold to the public by the Chinese Government, or (b) converted into gold, most of which was shipped to China and sold in the market there as an anti-inflationary device. At the end of the war, therefore, most of the proceeds of the loan was still held in gold or dollars by the Chinese Government or the public in China. Subsequently, however, a large part of these holdings have been liquidated to pay for imports.

The case for requiring China to repay this assistance rests mainly on the fact that the aid was not actually "consumed" during the war. It has been a general principle in the lend lease settlements to require foreign countries to pay for lend lease goods of a civilian nature which had not yet been "consumed" by VJ-day.

On the other hand, (1) the original terms of the financial aid were extremely loose, and the only reason why the aid was not provided as an outright gift in the first place was that this did not seem feasible at the time on political grounds; (2) it seems obvious that China is incapable of making effective repayment; and (3) the gesture of wiping out the claim might have some political value in our relations with China at the present time.

The Staff Committee is therefore recommending that the Council approve cancelling our claim on China arising out of this financial aid, subject to clearance of this decision with the Senate and House Foreign Affairs Committees, after a more complete accounting has been received from the Chinese with respect to the use of the funds.

Attachments 2

