

Inter-American Bank.

(letterhead of)

FEDERAL RESERVE BANK OF NEW YORK

W. E. Eells
(W. Clayton)

March 1, 1940

S i r s :

As requested in your letter of February 14, Mr. Knoke has discussed the technical aspects of the proposed Inter-American Bank with the Board's staff. He tells me that members of the staff have expressed a desire to have our views on the broader aspects of the matter, and that as the time for consideration is short, any comment by us must be given as soon as possible. I have, therefore, discussed the matter with some of the officers of the bank and under the circumstances think it best to send this letter directly to you as an informal statement of our views. If you should want a more formal statement of the bank's views, time would be needed for further study and for presentation of the question to the directors.

You will appreciate that we have less background on this proposal than those who have been studying it for several months and we may not be aware of all the considerations involved. Our comments are based entirely upon our reading of the Charter, the "Draft of Convention" and the "Draft of By-Laws" prepared by the Inter-American Economic and Financial Advisory Committee.

The By-Laws, page 6-8, enumerate the purposes and powers of the bank. The purposes are broad and the powers sweeping. The proposed bank would be apparently a commercial bank, an investment bank and a Western Hemisphere super-central bank after the model of the B.I.S. The bank is to finance trade, promote investment, economic development and trade, stabilize currencies, assist in maintaining adequate monetary reserves, promote the use and distribution of gold and silver, foster economic and financial cooperation, promote research and contribute

monetary and financial advice. To carry out these purposes the bank is authorized to make short, intermediate and long-term loans, guarantee loans, buy and sell government securities, issue its own securities, deal in gold, currencies, and foreign exchange, act as a clearing-house, discount and rediscount for, and carry deposits for, governments, central banks, political subdivisions, and nationals. After enumerating fifteen specific powers, which taken together are almost unlimited, the By-Laws add (5C, page 8) what appears to be a blanket mandate to the bank to carry out its purposes: "The Board of Directors shall determine the nature of the operations which may be undertaken by the bank in the exercise of its powers and in order to effectuate its purposes."

In our judgment such broad powers and purposes would run the serious risk of arousing false hopes and expectations of what the bank could accomplish. The use of such powers, or the failure to use them, could in many circumstances, we believe, become a source of embarrassment to the United States, and a creator of ill-will rather than of good-will.

We do not believe that an adequate economic foundation exists for the successful functioning of such a bank. Virtually all the Latin American countries are debtor countries, while the United States is a creditor country. The Latin American countries have little or no financial relations with each other. While on its face, therefore, the proposal appears to call for mutual financial cooperation among all the participating countries, it seems to us practically certain that the cooperation would resolve itself into lending by the United States and borrowing by the other countries from the United States. And along with such loans, under the terms of this proposal, would go a large measure of responsibility by the lender for the monetary stability and the economic well-being of the borrowers. It is true that under the By-Laws this country would have power to object

to the adoption of measures of which it did not approve, but the exercise of such power might prove a source of great embarrassment if we should find ourselves, as might easily be the case, the sole objector to some course of action which the other countries wished to pursue.

It has long been and still remains a doubtful question how much economic basis exists for loans by this country to Latin American countries, and perhaps no broad generalization is possible. Much depends upon the nature of our trade relations, which are different for different countries. In a number of important cases lending has not that close counterpart in mutually advantageous exchange of goods which has often characterized, for example, English financial and trade relations with agricultural countries. But when acting through an institution such as is here proposed it might well prove difficult for us to make discriminations on a strictly economic basis.

In our judgment the proposed bank suffers from the defects of all Pan-Americanism in the economic sphere, in that it tries to put on a hemisphere basis what is not really a hemisphere problem. Not only are financial relations among the Latin American countries virtually non-existent, and even their inter-trade relations of secondary importance, but in a number of cases their trade and financial relations with European countries are closer, and planted on a better economic basis, than their relations with this country.

To the extent that loans by this country to Latin American countries may be desirable for political or economic reasons, it would seem wiser to approach the problem in some manner more direct and simple and less likely to commit us to purposes and responsibilities beyond our power of accomplishment. This might mean acting through some established agency such as the Export-Import Bank, or setting up some new governmental agency of our own to accomplish whatever is desired in

the way of making political loans or facilitating or guaranteeing private loans and private credits.

Such an approach to the problem need carry no implication of any lack of desire on the part of this government to promote inter-American understanding and cooperation in every feasible manner. One of the purposes enumerated in the By-Laws of the proposed bank is to "engage in research and contribute expert advice on the problems of public finance, exchange, banking and money as they relate specifically to the problems of American republics." This objective seems to us both desirable and practicable and we believe that the mechanisms of central banks and treasuries already existing should be utilized, and developed further, for this purpose.

Faithfully yours,

(signed) GEORGE L. HARRISON

George L. Harrison,
President.

Board of Governors of the
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Washington, D. C.