

To: The Board of Governors

March 5, 1940

From: Mr. Goldenweiser

Subject: Inter-American Bank

The attached draft of a proposed reply to Mr. Berle's letter of February 20 is submitted for your consideration. We are informed that the Board's reply should be sent to Mr. Berle this week in order to be available in connection with drafting this Government's views for presentation to the Inter-American Financial and Economic Advisory Committee.

A copy of Mr. Berle's letter of February 20 is attached. The technical memorandum referred to on page 5 of the proposed reply to Mr. Berle is not yet complete.

C O P Y

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
RA

February 20, 1940

My dear Mr. Eccles:

There is enclosed a copy of a letter of February 16, 1940, addressed to the Secretary of State by the Chairman of the Inter-American Financial and Economic Advisory Committee bringing to the attention of the United States Government a resolution approved by the Committee on February 7, 1940, recommending the conclusion by the Governments of the American republics of a convention which would create an Inter-American Bank.

You will note that the resolution requests that this Government indicate to the Committee by March 15, 1940, its acceptance of these projects or present any objections of principle which would prevent it from signing such convention. The Department requests accordingly that you make known to it as soon as is possible your reaction to the Inter-American Bank proposal.

Sincerely yours,

Enclosures:

For the Secretary of State:

Copy of letter
dated February 16,
1940, with resolution
no. XVI and annexes.

(Signed) A. A. Berle, Jr.

Adolf A. Berle, Jr.,
Assistant Secretary

The Honorable
Marriner S. Eccles,
Chairman, Board of Governors of the
Federal Reserve System.

March 4, 1940

Honorable A. A. Berle, Jr.,
Assistant Secretary of State,
United States Department of State,
Washington, D. C.

Dear Mr. Berle:

Reference is made to your letter of February 20 enclosing drafts of the documents relating to the proposed Inter-American Bank and asking to be informed of the Board's reaction. The Board's views and recommendations on what it considers to be the most important aspects of the proposal are presented below.

The Board is in accord with the objectives of the proposed Bank. It believes that such an institution, if properly conceived and soundly managed, might contribute much to the development of economic and cultural unity throughout the Americas.

However, the Bank's chances of successful operation would be seriously impaired if certain modifications are not made in the documents. Failure to recognize and take advantage of the special position occupied by central banks and of the facilities they have to offer is particularly unfortunate. Central banks are, in an effective sense of the term, instrumentalities of government; their special powers and responsibilities make them uniquely familiar with the field of banking; and as operating institutions they are equipped to handle many types of financial transactions. With these attributes they are the institutions with which the proposed Inter-American Bank would naturally deal in carrying out many transactions.

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Central banks provide, for example, one of the readiest channels through which short-term credit might be made available by the new Bank to participating countries. Yet under the present by-laws loans to central banks must be guaranteed by the government, and short-term paper acquired by the Bank must carry a government guaranty even though bearing a central bank guaranty or endorsement. These restrictions, in the opinion of the Board, will seriously hamper the Bank in the conduct of short-term credit operations.

The suggestion has been made that the obvious operating difficulties created by these restrictions can be overcome by some form of blanket guaranty. This proposal would not only require action by each of from five to twenty-one separate governments but it is doubtful whether it would meet all contingencies. Reliance should surely not be placed on such a cumbersome and uncertain device unless there are important reasons for the restrictions. There appear to be no such reasons. There is certainly no question of the financial soundness and responsibility of central banks. These restrictions are not consistent with other provisions in the proposal by which the Bank is left free, for example, (a) to maintain unguaranteed deposits with any banking institution, central or private, and (b) to guarantee to third parties the availability and rates of exchange of the currencies of participating governments without any corresponding commitment on the part of such a government.

If the Bank should have an opportunity to make a sound short-term loan or rediscount sound short-term paper with the endorsement of the central bank of the country, what compelling reason is there for requiring it to obtain the guaranty of the government? The government might be willing for the loan to be made but unwilling to guarantee it because it might be involved in budgetary difficulties.

The Board is convinced that the by-laws of the Bank should be amended so as to permit it to accept without restriction the direct obligations, guarantys, and endorsements of central banks.

The Board is also of the opinion that the above-mentioned restrictions have the effect of drawing an unnecessarily sharp contrast between "government", on the one hand, and "central bank", on the other -- a contrast in every way parallel to that between governments and private institutions generally. It would seem to be eminently desirable to write into the by-laws provisions which will show clearly that participating countries are free, in so far as they think proper, to delegate to central banking authorities any of the functions allocated to governments in the documents.

After giving consideration to a number of alternatives the Board has come to the conclusion that each of its objections -- that relating to the provisions governing the short-term operations of the Bank and that relating to possible ambiguity in interpretation of the term "government" -- can be overcome most conveniently at this stage by adding the following paragraph to Article 6 of the by-laws:

D. The term "Government" shall include central banks, central banking authorities, or any other agencies which have been designated by a country to represent the government in its relations with the Bank; and authority under these by-laws for the Bank to engage in operations when the Bank has the direct obligation or guaranty of a participating government shall be deemed to authorize the Bank to engage in such operation whenever the Bank has the direct obligation, guaranty, or endorsement of a central bank of the country.

The proposed amendment would have important significance from the point of view of the management of the Bank, upon which its success as an operating institution will largely depend. In few countries is any agency so well qualified as the central banking authority to appoint and advise with the director and act as guardian of the interests of both the Bank and the country. The Board is informed that this view is shared by many of the Latin American members of the Inter-American Financial and Economic Advisory Committee. It is of the highest importance, therefore, that the by-laws expressly recognize the possibility of designating central banking authorities to appoint the director and exercise the continuing functions of government in relation to the Bank. If, in addition, such procedure is adopted in the United States it will set the example and strongly influence the decisions of the other participating governments.

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The foregoing considerations would indicate that the director representing this country on the Board of the Bank should be selected by the Board of Governors, with the approval of the Treasury. The selection of another agency for this purpose would add to the existing diffusion of authority and conflict of jurisdiction in the banking field, since the law already charges the Board of Governors of the Federal Reserve System with the duty of exercising special supervision and control over relations between Federal Reserve banks and foreign banks and bankers and over the organization and operation of corporations organized under State or Federal law for the purpose of engaging in international or foreign banking. To vest elsewhere the power to regulate the relationship between this Government and the proposed Inter-American Bank would not only be a departure from the policy heretofore adopted by Congress but also would be inconsistent with the efforts made in recent years to bring about a better organization of the Executive Branch of the Government.

There is enclosed herewith a memorandum prepared by the Board's staff, suggesting certain technical modifications to the convention and by-laws which we believe should, even at this late date, be given thorough consideration. The Board desires to urge particularly the adoption of the provisions regarding reserve requirements and limitation of the Bank's power to issue debentures and similar obligations (Art. 3,G). Other suggestions which the Board considers to be of the first order of importance are those relating to Articles _____.

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The Board may wish to make additional suggestions when the necessary enabling legislation to be presented to Congress receives detailed consideration.

Faithfully yours,

M. S. Eccles
Chairman