

May 9, 1940

Board of Governors

Legislation regarding

Mr. Gardner and Mr. Wyatt

Inter-American Bank.

The Convention to provide for the creation of the Inter-American Bank will be signed on May 10, 1940, after which it will need to be ratified by a two-thirds vote of the Senate.

It will also be necessary to obtain legislation (requiring action by both Houses of Congress) to grant a charter to the Bank, provide how this country's representative on the board of directors is to be appointed, provide the necessary funds to pay this Government's subscription to the stock, and to provide for any incidental matters requiring legislation.

If the Administration decides to seek such legislation at this session of Congress, the Board may be called upon in the near future for a prompt expression of its views. A hurried consideration of such an important matter might be avoided if the Board could formulate its views on certain questions in advance.

The following are some of the questions to be decided:

1. Should the director representing the United States on the board of the Bank be appointed by the President, by the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Board of Governors of the Federal Reserve System, the Federal Loan Administrator, or some other official or agency of the Government, or by a committee consisting of representatives of several departments and agencies?

In view of the fact that the structure and powers of the Bank will be governed by the by-laws, which will be subject to amendment by the board of directors, this is the most important and probably the most controversial question to be decided.

The Board of Governors, representing the banking arm of the Government and in particular charged with supervisory responsibilities over the foreign relations of the Federal Reserve Banks and foreign branches of national banks, can make a strong case, if it so desires, for its being the appointing agency. There are, however, effective arguments for the participation of others in this function. The Inter-American Bank will not confine itself to central or commercial banking. Its long-term loans, similar to those of the Export-Import Bank, may ultimately prove to be its chief field of business.

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Again, some of its activities will be directed toward exchange stabilization -- a field of particular interest to the Treasury; and Government guarantees (handled by the treasuries of the borrowing countries) will be required for all loans in excess of two years. The contribution that the Bank may make toward better understanding and more stable international conditions in this hemisphere is of outstanding interest to the State Department. It seems reasonable that all these interests should be represented in the selection and guidance of the United States director. If the Board of Governors is a participant in a group arrangement it is certain to be kept informed of all developments with respect to the Bank and to have full opportunity to express its views as to policy. In fact, it may have greater freedom to maintain a position if the other interested Government agencies also have a vote and are responsible for the action taken than if the Board alone were responsible and yet had to take into consideration other, and perhaps conflicting, interests within the Government. Particularly if the Bank gets into difficulties (and it will be under constant pressure to lend to borrowers of doubtful standing) an arrangement involving joint responsibility might be a protection to the Board.

2. Should the existing ineligibility of the members of the Board of Governors of the Federal Reserve System, and certain other Government officials, to serve as a director, officer, or employee of the Inter-American Bank be removed?

One possibility would be to provide specifically that, notwithstanding any other provision of law, any officer or employee of the United States shall be eligible to serve as an officer, director, or employee of the Inter-American Bank. Or the occasion might be used to obtain a provision broad enough to remove the disability of members of the Board and other officers of the Government to serve any similar institution, which would include the Bank for International Settlements without naming it specifically.

3. To what extent, if any, should the powers of the Federal Reserve Banks be broadened to permit them to deal with the Inter-American Bank, purchase its obligations, etc?

It would seem that any such authority of the Federal Reserve Banks should be exercised subject to the consent of the Board of Governors of the Federal Reserve System. With this limitation, it might be desirable to grant the Reserve Banks very broad powers to deal with the Inter-American Bank.

4. How should the funds for the United States' subscription be provided?

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The source of the funds for the subscription would have no direct bearing on the appointment of the director for the United States, except possibly as an additional argument for adopting one method or another in the legislation. The funds could be provided by an ordinary appropriation, or by authorizing some agency such as the Reconstruction Finance Corporation, or possibly the Stabilization Fund, to acquire the stock. One possibility might be to authorize the Board of Governors of the Federal Reserve System to subscribe for the stock with funds obtained by assessment on the Reserve Banks.

It is respectfully suggested that consideration be given to these questions of policy as soon as possible and that the staff be appropriately instructed so that it will be possible to render the most effective aid in connection with the preparation of any recommendations for legislation relating to the Inter-American Bank.

Respectfully,

(Signed) Walter R. Gardner

Walter R. Gardner

(Signed) Walter Wyatt

Walter Wyatt,  
General Counsel.