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March 25, 1940

To: The Board of Governors
From: Messrs. Goldenweiser, Wyatt,
Morse, and Solomon

Subject: Proposed Inter-
American Bank

On the morning of Friday, March 22, a meeting of representatives of the government agencies directly concerned with the Inter-American Bank proposal was held at the Treasury Department. Those present were Messrs. Wyatt, Solomon, and Morse from the Board; Bernstein, Pehle, Cotton, Glasser, and Friedman from the Treasury; Baker and Collado from the State Department; and Pierson from the Export-Import Bank.

The discussion centered mainly around the two points made in our letter of March 8 to Mr. Berle. As regards the first point -- that concerning the acceptance of a central bank guaranty or endorsement in lieu of a government guaranty -- there was general agreement that such a provision is desirable, except on the part of the Treasury representatives, who generally expressed opposition. It was suggested, however, that the guaranties, etc. should be limited in their application to relatively short-term operations. Mr. Pierson, who is in definite agreement with the Board on the importance of central bank guaranties, suggested that they should cover extensions of credit for periods up to two years. It was also thought that each government should be given an opportunity to render the provision inapplicable as regards its central bank.

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As it was apparent that these modifications would make the proposed amendment to the by-laws more palatable to the Treasury, and as there seemed to be no grounds for objection, it was agreed that they would be presented to the Board for its consideration. The Treasury representatives, in turn, agreed to take similar steps. The proposal was made and accepted that, if the Board had no objection, Mr. Wyatt and Mr. Solomon would draft a new provision on this subject and submit it to the Treasury.

The second point in our letter of March 8 was discussed in less detail. Mr. Collado suggested, however, that the point would be adequately covered if the interpretation which has been agreed upon was inserted in the permanent minutes of the Inter-American Financial and Economic Advisory Committee. There was no general expression of opinion on this proposal, although we believe that it should be acceptable to the Board. The real issue on this point will arise when the enabling legislation begins to be drafted. In this connection it may be mentioned that Mr. Bernstein professed to believe that our letter had reopened the basic question, which he thought had been settled, whether this was to be a government or a central bankers' bank. An attempt was made to disabuse him of this impression.

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With a view to reaching agreement on the points at issue it is recommended that the attached letter be sent to Mr. Berle, with copies to Secretary Morgenthau and Mr. Pierson. We do not believe that this letter modifies the position taken by the Board in any essential respect. We understand that Mr. Berle is anxious that agreement be reached as soon as possible in order that the process of redrafting may begin in sub-committee at an early date. It is contemplated that, if the letter is approved, the Board's representatives will work out the necessary technical details with the representatives of the other agencies concerned.

Draft - March 25, 1940

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

Dear Mr. Berle:

The Board is informed that at the meeting concerning the Inter-American Bank proposal which took place at the Treasury Department on the morning of Friday, March 22, there was considerable discussion of the first point mentioned in our letter of March 8. In the course of the discussion it was pointed out that the amendment to Article 6 of the by-laws proposed by the Board did not limit the maturity of obligations to be incurred by central banks; and it was suggested that, owing to the relatively short-term character of the business that the Inter-American Bank would for the most part desire to carry out through central banks, the proposed amendment could be limited in its application to operations involving short-term commitments. Mr. Pierson, however, thought that "short-term" - defined in the by-laws as "less than one year" - was too restrictive to be applied to operations with central banks, and that the provision should permit the Inter-American Bank to make loans or otherwise extend credits with maturities up to two years, upon the guaranty or endorsement of a central bank in lieu of the guaranty or obligation of a government. It was also suggested that some provision should be introduced which would make it clear that the proposed amendment would not be operative as regards central banks in countries where the government has raised an objection.

The Board wishes to inform you that, in response to this expression of views at the meeting last Friday, it has authorized its representatives to attempt to reach an agreement with the other parties concerned on a form of amendment to the proposed by-laws which will permit the Inter-American Bank to accept, without government guaranty, direct obligations, guaranties, and endorsements of a central bank of a participating country when such commitments do not extend, in any individual case, over a longer period than two years; provided, however, that the government does not object to this provision being operative as regards the central bank of the country.

The Board is also informed that there has been an apparent misunderstanding regarding the force of the second point made in our letter of March 8. The Board wishes to state, therefore, that this point is not, and was not intended to be, at variance with the sense of the understanding reached between the Treasury and the Board on January 27. Rather, it reflected a desire to incorporate the sense of that understanding in the basic documents instead of leaving it to informal, and perhaps varying, interpretation. The Board believes that a point of such fundamental importance should be dealt with in some formal way but does not stand on any particular method of achieving this result.

Faithfully yours,

cc: Secretary of the Treasury
President, Export-Import Bank
of Washington

M. S. Eccles
Chairman