NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

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FOR RELEASE TO P.M. PAPERS
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Support of the nation's bankers for the Inter-American Development Bank -- the Bank of the Alliance for Progress -- was urged today by Joseph W. Barr, Chairman, Federal Deposit Insurance Corporation.

The Inter-American Development Bank, like the World Bank, is in a sense banking the foreign policy of the free world, but the objectives of the unique institution in Latin America are not fully understood, Barr said in a speech at the convention of the American Bankers Association in Miami.

"The Alliance for Progress is certainly the most ambitious exercise in international cooperation since the Marshall Plan," Barr told the State Bank Division of ABA. "In fact, it has more ambitious aims; while the Marshall Plan was directed at the short-range problem of restoring Western Europe's economic and financial strength after World War II, the Alliance is directed at building economic and financial strength into Latin America on a long-term scale never before attempted."

The important difference is that the Alliance is a partnership of the Americas. "It is not a United States aid program; it is a program of self-help. Major decisions to set conditions and allocate Inter-American Bank funds are made by the partnership. The importance of this fact

(more)

cannot be exaggerated, for the Alliance will not succeed except as it is a true partnership."

Misunderstanding and grievances existing between the U.S. and its Latin American neighbors, Barr said, have been generated by a "whole catalogue of myths, generally unflattering to Latin Americans, and these myths die hard."

"The stark economic facts of Latin America today are bewildering in light of the known resources of that region," Barr declared. "Latin America's share of world trade has been declining over the past 15 years. The average annual income in Latin America has been rising slowly, but the race between economic growth and population growth is quite literally a life and death race in Latin America."

"These facts suggest urgent, even dire economic problems. Yet we still see in Latin America habits of government which from a distance confound us. We see from time to time a kind of inflation in some countries which throws into question the ability of the government to govern at all. We see hostility and indifference to the private sector even as that sector provides at least 70 percent of gross domestic investment in Latin America."

"For their part, many Latins regard Americans as too self-righteous," Barr continued. The complaint that "we view Latin America from too much of a distance and in sorry ignorance of its history, its achievements, and even its geography," is high on their list of grievances against us, Barr declared. He continued:

"There is, of course, a legacy of resentment against foreign enterprise. It is understandable. The huge royalties and tax revenues which foreign investment leaves in Latin America each year are no substitute for a healthy, locally-owned private sector, producing for and earning from the local market. One can say today that in many if not most Latin American countries new business and financial leaders offer the best hope for overcoming Latin America's economic problems."

Like the World Bank, the IDB prides itself on being a tough lender when necessary. While the IDB has committed all told about $1 billion equivalent in the past four years, only about a third of that sum has actually been disbursed. The main reason for the lag between disbursements and commitments is the need to carry out "institutional and administrative reforms to ensure sound handling of the credit and ultimate success in execution of the project."

Barr said that present funds of the Inter-American Development Bank have been committed, and that Congress has been asked to authorize $750 million to replenish its treasury over the next three years.

"At this moment," he stated, "our Latin American problems fall into two rough classifications -- financial and political. I would urge your help in searching out workable answers in the financial sector. At least one answer is the IDB. I commend it to your study, and I hope for your support in the next Congress. But even more than support, the nation needs informed opinion and understanding in our cooperative attack on the problems of our Good Neighbors to the South."

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RELEASE MONDAY, OCTOBER 26, 1964, P. M. PAPERS:

BANKING FOR PROGRESS IN LATIN AMERICA---THE INTER-AMERICAN DEVELOPMENT BANK

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

before the

State Bank Division
AMERICAN BANKERS ASSOCIATION

at its

90TH ANNUAL CONVENTION

Fontainebleu Hotel
Miami Beach, Florida

Monday, October 26, 1964

10:00 A. M.

Address of
Joseph W. Barr, Chairman, Federal Deposit Insurance Corporation
Before the State Bank Division of the American Bankers Association
Fontainebleu Hotel, Miami Beach, Florida
Monday A. M., October 26, 1964

BANKING FOR PROGRESS IN LATIN AMERICA -- THE INTER-AMERICAN DEVELOPMENT BANK

When I announced to the staff of the State Bank Division of the American Bankers Association that the title of my speech today would be "Banking for Progress in Latin America -- The Inter-American Development Bank," I noticed that they reacted with rather obvious disappointment. I am sure that they would have preferred that I use this forum today to discuss some of the issues that currently divide the regulatory agencies and the issues which seem to exacerbate the relationships between state bankers and national bankers.

I have used the platform offered to me in recent weeks to remind the banking community that they have a significant responsibility in the international affairs of this nation -- in the area which I have termed: "Banking for Peace." This seems particularly appropriate at a time when the nation faces its quadrennial opportunity and duty to choose a President. This effort of mine is a sober attempt to place the issues of development diplomacy in a perspective suitable for debate and judgment. It is the approach that I intend to pursue today.

But I have concluded that it is proper for me to comment briefly on some of the conclusions I have reached, after 9 months as Chairman of the Federal Deposit Insurance Corporation, on the more controversial domestic banking issues. I think that you are entitled to have some idea as to how I will react when confronted with these issues in the administration or in the Congress.

First of all, what have I concluded about dual banking? As you know, I am not a banker, and I was amazed and even a bit amused to discover that the term "dual banking" to the banking community rates almost on a par with "Motherhood" as an emotional concept. I had no reason to become emotional on the subject and I decided to try to think the matter through. After all, I need not remind you that emotions are not very useful in preserving institutions that do not serve the public interest.

My first approach was to examine the literature on the subject. Frankly, I found these studies to be quite disappointing. Throughout our history there has been an obvious trend on the one hand to bring order into the system through more federal control and on the other hand a fierce attempt to keep banking matters on a local and state basis. The federal thread is obvious in the creation of the First and Second Banks of the United States and in the National Bank Act. The thread of state and local resistance is manifest in the McFadden Act and the creation of the Federal Deposit Insurance Corporation.

The hearings on the F.D.I.C. made fascinating reading, but so much of the literature on banking subjects seems to me to be a bit shallow and self-serving. For example, I am not impressed with the "ability to escape from tyranny" argument when it applies to institutions responsible for control of the money supply of this nation.

Because I felt much of the literature to be inadequate, I went out to look for myself. I violated a rule of my old boss, Secretary Douglas Dillon, who believes that a great Government department or agency cannot be directed by a man running around the country making a constant series of speeches. I moved out on a two-a-month series of speaking engagements. I talked to bankers, regulators, and businessmen in New York, California, Texas, Illinois, Tennessee, Connecticut, North Carolina, New Jersey, Iowa, and Florida. I mixed with our citizens; I studied state and local statistics. And from all this looking, studying, talking, and wondering, I came to the conclusion that we have in this country a banking system that is incredibly diverse -- almost to the point of being chaotic, -- but a system that seems marvellously efficient in serving the credit needs of the nation and in readjusting to changing conditions.

To anyone with a sense of order, the vast numbers of banks and the multiplicity of laws and regulations seem appalling -- especially when contrasted with the orderly systems that prevail in the United Kingdom, on the Continent, and in Japan. But out of this chaos comes a fiercely competitive drive to meet the needs of the people and the nation.

Who can say that such a system has failed? It has met the credit needs of the nation at home with spectacular success. Walk the streets of Chicago, Dallas, San Francisco, New York, Memphis or Miami if you doubt my words. Look out the windows of your plane at the roads, the factories, and the farms as they roll out beneath you if you need further proof. Quite obviously, this incredible diversity in what we call "dual banking" has produced the competitive drive to serve. Quite obviously this rather chaotic system has avoided the rigidities and the stagnation that so often characterize order and symmetry. I have resolved to do what I can to improve and preserve the balance between state and national systems.

"Dual banking," with its vast numbers of banks and its diversity, entails obvious national risks. Without adequate regulatory authority, and without deposit insurance, I do not believe the nation could tolerate the potential threat to the money supply. But I gratefully conclude that this vigorous, dynamic, and adaptable system with all its risks is justified, because excesses and risks to the money supply have been minimized through bank examinations and deposit insurance. I have almost come around to Mr. Patman's contention that the price of a few bank failures is a small price to pay for a dynamic system which, as a primary purpose, adequately provides for the credit needs of the country. This is the system which I can and will support.

It seems to me that the issues of regulatory disputes, equality of powers, and the place of commercial banking in the nation's credit picture, all can be properly reserved for that great court of last resort, the Congress of the United States.

When I arrived in Miami yesterday morning my mind was dwelling on that day just two years ago when it was confirmed that the leader of a Latin American country had permitted Soviet Russia to install nuclear missiles hardly 90 miles off our coast. That day Fidel Castro sold the soul of Cuba to the one imperialist power in the world which could rob Latin America of its independence and usher in a new era of conquest and colonization.

That day of infamy was in my mind because I came here to talk to you about a very special banking institution dedicated to the future of Latin America. I refer to the Inter-American Development Bank -- the Bank of the Alliance for Progress. I chose this topic partly because of Miami's special window on Latin American affairs, but mostly because in the next session of the Congress one of the first items of business is going to be a bill to increase the resources of IDB. I hope you, as American bankers, will take a professional interest in this unique institution. For the IDB, like the World Bank, is in a sense banking the foreign policy of the free world. These institutions employ banking techniques to encourage the kind of economic development in Latin America and elsewhere which has been a key objective of our foreign policy since the Marshall Plan days.

The Alliance for Progress is certainly the most ambitious exercise in international cooperation since the Marshall Plan. In fact, it has <u>more</u> ambitious aims; while the Marshall Plan was directed at the short-range problem of restoring Western Europe's economic and financial strength after World War II, the Alliance is directed at building economic and financial strength into Latin America on a long-term scale never before attempted.

But the important comparison between the Alliance and the Marshall Plan lies not in their respective aims but in their respective ways of going to work. In both cases the major decisions to set conditions and allocate funds are made cooperatively--in a partnership among the United States and its allies.

It is this fact more than any other which distinguishes the Inter-American Development Bank. IDB's President, Felipe Herrera, is from Chile; he ranks with Campos of Brazil, Prebisch of Argentina, and Santa-maria of Colombia among the great economic statesmen of Latin America today. While we may differ with the views of these men from time to time, they clearly deserve our respect. These are the new men of Latin America who are dedicated to making real the vast promise of the region.

The staff of the Bank, together with its executive directors who represent the subscribing countries (including our own Tom Killefer), de-termine the allocation of IDB's funds according to sound banking techniques, modelled in large part on those of the World Bank. The United States, to be sure, has the most votes on the IDB board; the United States, to be sure, puts up most of the money, and could call the tunes itself. But the success of the IDB lies in the fact that the United States' role has been no more nor less than that of an equal partner.

This, of course, is true throughout the Alliance. It is not a United States aid program, pure and simple, though the U.S. does maintain a sizeable bi-lateral aid program under the Alliance. It is a program of self-help, conceived by the Americas, of the Americas, and for the Americas. The importance of this fact cannot be exaggerated, for the Alliance will not succeed except as it is a true partnership.

Is it really necessary to review the list of grievances which North American and Latin American have harbored against one another over the years in order to make the point that only as a partnership can the Alliance really succeed? In the United States, the failure of South America to become as prosperous and as modern as North America has led to a whole catalogue of myths, generally unflattering to Latin Americans, and these myths die hard.

Indeed, the stark economic facts of Latin America today are bewildering in light of the known resources of that region. Latin America's share of world trade has been declining over the past 15 years from 12 percent in 1948 to less than 7 percent in 1962-63. While the average annual income in Latin America has been rising slowly, it remains a meager $300 a year as against about $2,500 a year in the United States. And, of course, these regional figures mask a host of differences among the various Latin American countries. The race between economic growth and population growth is quite literally a life and death race in Latin America. There are now 200 million Latin Americans, slightly more than our own population. If present trends continue, this number will double in the next two decades.

These facts suggest urgent, even dire economic problems. Yet we still see in Latin America habits of government which from a distance confound us. We see from time to time a kind of inflation in some countries which throws into question the ability of the government to govern at all; it is not just a matter of a few percentage points a year in the cost of living; it is an increase in local prices of 80 percent or even 100 percent a year. We see chronic balance of payments instability going hand in hand with neglect of export production. We see hostility and indifference to the private sector even as that sector provides at least 70 percent of gross domestic investment in Latin America. We see these things from time to time and from country to country, and we tend to become not just bewildered, but more than a little self-righteous in our views of our southern neighbors.

At least in the eyes of many Latin Americans, we North Americans appear self-righteous. For they have their list of grievances against us, and high on their list is the grievance that we view Latin America from too much of a distance and in sorry ignorance of its history, its achievements, and even its geography.

For some time now, for example, most Latin Americans have been explaining their declining share in world trade on the basis of the fact that between 1955 and 1962 the prices of their exports rose far less than did the prices they paid for their imports. A penny's difference in the price of a pound of coffee means $25 million a year to Brazil; a penny's rise in the price of tin affects an industry responsible for three quarters of Bolivia's foreign exchange earnings. And so it goes in one way or another for 15 Latin American countries, each of which is still dependent on one or at most two basic commodity exports for the bulk of its foreign exchange earnings.

Latin America's heavy dependence on the export to the world market of a few key products is a result of the region's historical and geographical predicament. This same dependence goes far to explain Latin American attitudes towards private enterprise--particularly foreign private enterprise.

Geography is a very big fact in Latin America--particularly in South America. For decades it divided the continent into more or less isolated pockets of habitation. South America's west coast is sealed off by a mountain range that runs 4,500 miles from Venezuela to the tip of Chile. On both coasts the commercial lines of communication until very recently led, not to other parts of the continent, but to Europe and North America. One Latin American scholar has likened South America in the past to what the United States might have been like if its people had not crossed the Appalachians.

Until very recently in most of Latin America the capital city was the one important metropolitan center, and the center of modern economic life. Even today one third of the people in Argentina live in and around Buenos Aires; half of Uruguay lives in Montevideo; Lima is not just the biggest city in Peru, but bigger than all other Peruvian cities put together.

And if perhaps a third to a half of the people of South America lived until recently in and around one or two major coastal cities, the rest lived a world away in time, in thousands of isolated provincial towns and villages. In the heartland of South and Central America history and geography conspired to produce a society where the changes necessary for modern government and modern economic growth come very hard. Allegiances in many localities even now are to the locality rather than the nation. Yet the Spanish, who came three centuries and more ago to conquer and not to colonize, left no tradition which could evolve into modern self-government even on the local or regional level. Modern economic life grew up in the cities, was oriented towards exporting, and was dominated by foreigners. The cities themselves grew as centers of population and commerce much faster than as centers of government. Indeed, they were more often than not centers of chronic political instability.

This is the kind of background which students of Latin American geography and history ask us to keep in mind when judging Latin America's problems today. During and since World War II, the barriers of geography and history in Latin America have been coming down; the mountain walls have been breached and new and modern cities, like Cali in Colombia or Belo Horizonte in Brazil, have grown up. The great gulf between the cities and the countryside is slowly being narrowed and the cities themselves are yielding a new business class, such as one finds in Mexico, Brazil, Colombia, and Peru, which is dedicated to developing South America for the South Americans. But it would be naive to expect Latin America to throw off the ill-effects of its geography and history in any short period of time or to avoid a certain hangover from the past.

There is, of course, a legacy of resentment against foreign enterprise. Eugene Black, when he was President of the World Bank, told the story of the irate South American businessman who complained that "these big mining companies in my country leave nothing behind but holes in the ground." Unfair as the remark may be, it is understandable. The huge royalties and tax revenues which foreign investment leaves in Latin America each year are no substitute for a healthy, locally-owned private sector, producing for and earning from the local market. Before World War II, foreigners did dominate the private sector and often the export trades of Latin America. But World War II changed all that; locally owned private enterprise in most Latin American countries has boomed since World War II, very often in spite of the policies of governments. One can say today that in many if not most Latin American countries new business and financial leaders offer the best hope for overcoming Latin America's economic problems--and, incidentally, for assuring in the future the economic strength and coherence of the Inter-American system.

As President of the Inter-American Bank, Felipe Herrera has dedicated himself to burying the grievances of the past and substituting a new relationship between North and South Americans based on mutual confidence and hard work. Senor Herrera is no ideologist; the word he most likes to use in talking about the IDB is "flexibility;" he doesn't preach, he practices. Thus he says--and I quote: "...We have endeavored to apply our funds to those projects where they will be used most effectively, regardless of whether the recipient belongs to the public or private sector." And what is the result of this endeavor? About half of the IDB's own funds have been committed directly or through development banks to Latin American private enterprises, mostly manufacturing enterprises. This ratio is much higher than in the World Bank where the bulk of the lending, even in Latin America, goes to state-owned public entities.

Like the World Bank, the IDB prides itself on being a tough lender when necessary. While the IDB has committed all told about $1 billion equivalent in the past four years, only about a third of that sum has actually been disbursed. The main reason for the lag between disbursements and commitments is the normal financial "pipeline" requirement. A special reason peculiar to the nature of the Bank is, in the words of its President, the need for "carrying out institutional and administrative reforms to ensure sound handling of the credit and ultimate success in execution of the project."

About one quarter of the IDB's resources have been committed for agricultural projects. There is broad agreement that agriculture is Latin America's most important and most intractable problem. Over the past thirty years per capita food production in Latin America has actually declined. But it is in the agricultural areas of Latin America that the past hangs most heavy over efforts to introduce modern methods and techniques. The IDB, often working with our bi-lateral aid program, has probably had more success than any other single agency in coming to grips with Latin America's agricultural problems.

IDB's technique in agricultural lending has been to work through farm credit organizations in most of its member countries, trying to bring modern technology and modern methods to small farmers. Some half a million acres of land have been brought under irrigation in Argentina, Chile, and Mexico, thanks to IDB loans and credits. More funds have been committed to land settlement and improved land use projects, usually connected with a land reform program.

Together with the World Bank and our own aid program, IDB has been part of a relentless attack on the geographical barriers which have divided and sub-divided Latin America in the past. When the Brazilians and the Paraguayans had completed a highway link between their two countries, the U.S. agreed to finance its paving; now the IDB is studying the feasibility of a further link between Brazil and Uruguay. A trans-Andean highway between Chile and Argentina has been a dream in the minds of engineers in both countries for decades; with the IDB's help it may soon become a reality. So may a highway connecting Colombia, Ecuador, Peru and Bolivia -- to the east of the Andes, bordering the huge Amazon basin, an area about as big as the United States with a population of one person or less per square mile.

Breaking down the geographical barriers in Latin America is the kind of challenge engineers dream of. But the phrase "Latin American integration" means much more than this. As Felipe Herrera puts it, "Latin American integration on all its levels is the only dynamic force that can lead our countries rapidly, not only to their indispensable internal maturity, but above all to their true and rightful place in the concert of great nations...constituting the free world." To this end, the IDB, as the Bank of the Alliance for Progress, is dedicated.

The IDB, like the World Bank, has a "hard" window and a "soft" window. The IDB, like the World Bank, has to grapple with the fact that in addition to meeting legitimate needs for credit, they are to an important extent guardians of the international credit structure. Increasingly the hard problem of what we call "foreign aid" is the need, as Secretary Dillon puts it, "for reconciling the capital requirements of the developing countries with the need to preserve and expand a stable international credit structure."

Assistant Secretary Thomas C. Mann, who as you know is in charge of Latin American Affairs in the State Department, pointed out the other day that, excluding Venezuela, Latin American countries today must use 20 percent of their export earnings to service their foreign debts. I do not have to tell you that when the burden of debt service is this heavy, no good banker is going to increase the load without thinking long and hard beforehand.

The IDB has been receiving supplementary contributions from its member governments, largely from the United States, ever since the Alliance was proclaimed at Punta del Este in 1961. From the beginning of the Alliance the United States has regarded this multi-lateral bank as a vital instrument in the Alliance and arranged to channel a significant portion of our foreign assistance funds through it. But now these funds have all been committed; Congress has been asked to authorize $750 million to replenish the "soft" window of the IDB over the next three years. I earnestly urge you to acquaint yourselves with this matter and, if you feel as I do that the IDB has earned our continued support, I hope you will make your views known.

The Alliance for Progress, as I have said, is one of the most ambitious exercises in international cooperation ever undertaken in peace time. Economic development is the immediate objective of the Alliance, self-help the key to its success. But these are easy words. "At times," as Felipe Herrera says, "observers simply fail to understand the very nature of the changes sought in the belief that within a few short weeks or months our countries can replace or modernize their entire institutional structures." He was referring to what he called "a dangerous discouragement...regarding the prospects of cooperating with Latin America" which he detected "in certain advanced countries." Surely we should be on guard against such discouragement; surely we should recognize that just as Latin Americans suffer some hangover from the past in viewing our actions, so we suffer similarly some hangover from our past indifference to and ignorance of Latin American affairs.

It is often observed that the Communists have a vested interest in everybody else's troubles. Perhaps what separates us most from the Communists is that we have a vested interest in everybody's progress. Ninety miles off the coast of Florida, Cuba lies as a dramatic warning to all of us.

I was an elected Representative in the Federal Government of the United States when Castro took over control and when he moved Cuba into the Communist orbit. It would be sheer hypocrisy for me to duck my very small part of the blame because I feel strongly that all of us, Democrats and Republicans, the Congress and the Executive, share the blame. I have pondered the reason for our initial problem in Cuba and, while no one can be certain, I would ascribe it largely to misunderstanding.

If this be so, then it is not a mistake I wish us to repeat elsewhere in Latin America.

At this moment our Latin American problems fall into two rough classifications--financial and political. Rather than looking for someone to blame, I would urge you all to assume your responsibility to help search out workable answers in the financial sector. At least one answer is the IDB. I commend it to your study, and I can hope for your support in the next Congress. But even more than support, the nation needs informed opinion and understanding in our cooperative attack on the problems of our Good Neighbors to the South.