

June 10, 1948

Dear Will:

Our Directors and members of our staff have read with interest Mr. Douglas H. Allen's letter of May 20 in which he sets forth certain observations regarding the lending activities of the Export-Import Bank.

In general, I might say that the views expressed by Mr. Allen are entirely consistent with those which we hold. I believe that if we were in a position to discuss the details of each credit with Mr. Allen he would agree that the violation of those principles have been less frequent than he appears to conclude. From his own experience during the war, Mr. Allen is aware, as he states, that many projects were undertaken on an inter-governmental basis which otherwise might not have been considered. The major portion of the credit extended by this Bank in Latin America, however, has been utilized for the construction of roads and similar public works or the credit has been extended to United States manufacturers and suppliers who have obtained orders for the sale of United States equipment. As in most parts of the world the railroads and many of the utilities constructed in recent years are State rather than privately owned and it is with these entities that the American suppliers have sought to place orders.

The application for assistance to the Monclova Steel Mill in Mexico was presented to the Bank by the American Rolling Mills Company which obtained an equity position. The stock of the Brazilian Steel Mill was offered to the public with the result that about 12% is privately held. The majority of the stock in the Chilean Steel Mill is to be privately owned.

As you know, the Bank has not extended credits in any appreciable amount in Latin America since the war. This has been due partly to the necessity of considering first the more urgent reconstruction problems of Europe and also to the policy of referring applications wherever possible to the International Bank. We are convinced of the possibilities of sound development of the resources of Latin America and are convinced also of the desirability of encouraging private capital in this direction. We are at times disappointed, however, in the response of those who seek our assistance in the name of "free enterprise" where the amount of equity investment which they propose is surprisingly inadequate in comparison with the assistance which they desire from government sources.

*Miss Chupka*

We are not unaware of the risks confronting private investors in Latin America or of the physical problems to be overcome in the realization of any project. Some of the problems are, of course, political and cannot be met solely by assistance from this Bank. In connection with many projects we find that it is necessary in the first instance to grant assistance to the foreign government in order that harbors, roads and other means of ingress and egress may precede the development of some rich resources located in an undeveloped area.

As Mr. Allen observes, international loans cannot be repaid unless the debtor nation earns the necessary foreign exchange. This, of course, is true whether the obligation is contracted by the foreign government or by private corporations engaged in business abroad. It is for this reason that we attempt to limit the extension of credits to those projects which will create directly or indirectly the dollar exchange required for their repayment.

It is with the belief that the objectives which Mr. Allen advocates can be achieved that we have approached Congress for additional lending authority. We are convinced, however, that assistance may be rendered by the Bank only in those instances in which private interests are prepared to make a substantial and not merely token equity investment.

Sincerely yours,

Wm. McC. Martin, Jr.

Honorable William L. Clayton  
Department of State  
Washington, D. C.

SA/gen  
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