MEMORANDUM

With a view to the adoption of a plan for the conversations relative to "Chapter I of the Statement of the Plan of Operation with Regard to the Proposed $50,000,000 Loan", begun today at the Treasury Department under the chairmanship of Mr. White, the Cuban Technical Economic Commission takes the liberty of submitting for consideration by the Treasury Department and the Federal Reserve Board, the following general outline:

1.- Chapter I of the Statement above mentioned relates to the necessity of meeting the deficit in the Cuban budget for the year 1940, and the probable deficit for the year 1941, by setting aside for this purpose $10,000,000 of the proposed $50,000,000 loan.

2.- The Commission has not considered it necessary to go into said Chapter I into the details of the political, social and economic consequences with which Cuba would be faced if a budget reduction were to become necessary because of her inability to find the resources with which to meet those deficits.

It should be noted, however, that the Cuban fiscal year ends on December 31, and the Government, which will be unable to meet all its commitments for the current month of October, and much less those for the coming months of November and December, will be forced, in reducing its expenses, to suspend temporarily the service of the Foreign Debt.

It will be apparent that such a step would have grave repercussions, and would destroy the great efforts made by Cuba to re-establish her foreign credit. These efforts constitute
an almost unique example in the Western Hemisphere.

3.- The Cuban Government and the Commission consider that notwithstanding the serious emergency to which reference has been made, the loan operation would lack a constructive character were the opportunity which is now offered by the entry into force of the new Constitution (which requires new legislation for the organization of all the Departments or Ministries of the Government, and therefore, of the Treasury) to be ignored, and the study and preparation of the necessary legislation that would rectify the deficiencies found in the Cuban fiscal system by both Cuban and foreign experts not undertaken.

4.- The Cuban Technical Economical Commission therefore, and in accordance with instructions received from its Government is prepared to examine and discuss the technical suggestions and advice which the Treasury Department of the United States and the Federal Reserve Board might wish to offer in the course of the conversations now begun.

5.- It might be possible, therefore, to agree on the basic and general lines of the reorganization of the Cuban fiscal system, and on that basis, to prepare a memorandum or draft of the legislation which, by provision of the Constitution, and in an immediate future, must be voted by the Cuban Congress for the purpose of introducing into the existing legislation regulating the Executive branch and its departments, the amendments demanded by said Constitution.

6.- Another important matter which can and should be a subject of the present conversations is, no doubt, the creation of the banking organization to which Cuba aspires.

7.- The Commission is pleased to acknowledge that this
task was successfully initiated by a previous Commission which in 1937 examined and discussed with the experts of the Treasury and the Federal Reserve Board a plan directed towards the establishment of a banking system in Cuba, formed in principle by a Central Bank of Issue and Rediscount and an Agricultural Credit Bank.

8.- Those projects might serve as the basis for the new conversations.

9.- The matters that may be the subject of conversation and discussion with the experts of the Treasury Department and the Federal Reserve Board, are, namely:

a) meeting of the budget deficits for the years 1940 and 1941, setting aside for this purpose $10,000,000 of the proposed $50,000,000 loan, due account being taken of the extraordinary urgency for this operation;

b) reorganization of the Cuban fiscal system;

c) establishment of a banking system.

10.- The relationship established between the constructive nature of the share of the proposed loan set aside to meet the budget deficits for the years 1940 and 1941 and the reorganization of the Cuban fiscal system, cannot, in view of the present need of the Government to meet such a deficit, impose a rigid order presupposing an effective fiscal reorganization as a pre-requisite to the granting of the loan.

11.- It would be possible however, to agree to the general or fundamental lines of such a reorganization, to obtain the approval of the Cuban Government with regard to them and, while the detailed study is carried out, to proceed with the general plan, and, eventually, recommend the loan of $10,000,000 to cover the budget deficits for the years 1940 and 1941.
12. - With the object, within such a program, of facilitating the study and preparation of the fundamental and general bases for the reorganization of the Cuban fiscal system, the Cuban Commission will be pleased to furnish to the Commission of the Treasury Department and the Federal Reserve Board any data deemed necessary for a better examination of the problems involved. It will be borne in mind, however, as suggested in this memorandum, that this first Chapter of its labors in view of the time limitations, cannot but be of a general nature.

13. - The study of the Cuban Banking System could also be begun simultaneously during these conversations, though it is impossible to hold back point 1. of the program, namely attention to the budget deficits for the years 1940 and 1941, to the progress and development of the above mentioned study.

October 24, 1940.