

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 26, 1948

To Chairman Eccles
From Mr. Knapp

Subject: Principal decisions reached at
National Advisory Council meetings of
March 18 and 25.

There were two meetings of the National Advisory Council during your absence, on March 18 and March 25, and I should like to report to you briefly upon the principal decisions reached. The problems considered are described more at length in the various memoranda attached.

1. Amendment of banking and security legislation affecting International Bank

As you know, the International Bank asked the National Advisory Council to approve legislation which would exempt the Bank from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. The SEC was represented at the Council meeting by Mr. McConaughy, who stated that while the SEC had some doubts as to the wisdom of this course of action it was not inclined to oppose the passage of the proposed legislation. None of the Council members had any objections to make, and the proposal was accepted unanimously.

There was also general agreement on the Bank's proposal that Section 5136 of the revised statutes should be revised to permit commercial banks to deal in International Bank securities provided that a bank's total holdings of these securities for dealing and investment account did not exceed 10 per cent of its capital and surplus. The actual language proposed by the Bank to accomplish this result seemed to require some clarification, but this matter has subsequently been worked out by the legal people (including George Vest).

2. International Bank loan to Chile

Following negotiations which have lasted a year and a half, the International Bank has finally approved the financing of certain hydro-electric and agricultural machinery projects in Chile requiring a total of 16 million dollars. Upon the recommendation of the Staff Committee, the Council authorized the U.S. Executive Director in the Bank to approve this loan.

3. Proposals for new inter-American financial institutions

A number of Latin American countries are expected to propose at the Bogota Conference the creation of various new inter-American inter-governmental financial institutions. In general the Latin American countries are very disappointed with the amount of assistance they have received from the International Fund and International Bank and would like to set up an Inter-American Fund and Bank. Clearly, however, the United States could

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not join in sponsoring such institutions without seriously impairing the functions and usefulness of the world Fund and Bank. This position was adopted unanimously by the Council upon the recommendation of the Staff Committee.

4. 500 million dollar increase in the lending authority of the Export-Import Bank in order to provide funds for Latin America

The State Department, while joining in the condemnation of any form of new inter-American financial institutions, feels that something must be done at the Bogota Conference to counter the dissatisfaction in Latin America over the small amount of development loans which they have been receiving from existing sources. Hence, early this month in a letter to the House Foreign Affairs Committee, which was written without any consultation with the National Advisory Council, the State Department suggested that the lending authority of the Export-Import Bank might be increased by 500 million dollars in order to enable that Bank to expand its operations in Latin America. On last Tuesday this proposal was finally brought to the Staff Committee and on Thursday to the Council.

The Staff Committee approved the proposal, subject to my vigorous dissent. The reasons for my dissent are set forth on the first three pages of my memorandum of March 24 to Governor Szymczak entitled "National Advisory Council meeting tomorrow" (see copy attached, and also see attached N.A.C. Document No. 641 in which the Export-Import Bank and the State Department state the case for the proposal). I repeated these arguments at the Council meeting, and Gene Black registered a very strong protest against the proposal. We also received some support from Overby. However, the Export-Import Bank and the State Department held firm and they were supported by Secretary Harriman and Secretary Snyder. On the other hand, Bill Martin and Secretary Snyder both stated in the strongest terms that even if this money were obtained for the Export-Import Bank they would still want to refer Latin American loan applications to the International Bank whenever the Bank was able and willing to handle them. On this understanding the other four agencies all voted for the proposal; in the absence of Governor Szymczak I stated that our vote would be communicated later to the Secretary of the Council for recording in the minutes.

After you have read up on this subject, Governor Szymczak and I are anxious to discuss with you how our vote should be recorded and--if we vote against the proposal--whether we should insert a statement of our reasons in the record.

5. Settlement of wartime financial aid to China

During the war, as a "financial counterpart" to Lend Lease, China was provided with special financial aid from the U.S. Treasury in the amount

of 500 million dollars. This was almost all drawn out of the Treasury in gold and dollars before the end of the war, but most of the loan proceeds was not actually spent for imports until after VJ-day. As you know, it has been a general principle in the Lend Lease settlements to require foreign countries to pay for civilian aid received but not yet "consumed" by VJ-day.

On the other hand, (1) the original terms of the financial aid were extremely loose, and the only reason why the aid was not provided as an outright gift in the first place was that this did not seem feasible at the time on political grounds; (2) it seems obvious that China is incapable of making effective repayment; and (3) the gesture of wiping out the claim might have some political value in our relations with China at the present time.

The Council therefore approved, upon the recommendation of the Staff Committee, the cancelation of our claim on China rising out of this financial aid subject to clearance of this decision with the appropriate Senate and House Committees after a more complete accounting has been received from the Chinese with respect to the use of the funds.

6. "Taft Amendment" to the ERP Bill providing for U.S. guarantees on credits extended to Europe by Western Hemisphere countries

This rather complicated subject is dealt with in Mr. Dembitz' memorandum to Governor Szymczak dated March 24, 1948 (see copy attached).

The "Taft Amendment" got into the Senate Bill during the floor discussion. It was rejected outright by the House Committee, but it is expected that an attempt will be made on the floor of the House to get it back in some form in the House Bill. The State Department, which has been trying to knock the provision out all along, wanted to get support from the National Advisory Council for its position.

Briefly, the "Taft Amendment" provides that the ERP Administrator may guarantee credits extended to Europe by other Western Hemisphere governments (guarantee of up to 70 per cent) or by "any person in the Western Hemisphere"—including persons in the United States (guarantee up to 100 per cent). It further provides that the Administrator may make advances on such guarantees in order to provide immediate dollar funds if needed to the governments or persons granting the credits. This very involved procedure is proposed as a permissive alternative to off-shore purchases by the United States in the other Western Hemisphere countries, although in addition (by making persons in the United States eligible to receive guarantees) it opens up the field to all kinds of guaranty operations in this market.

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On the recommendation of the Staff Committee, the Council unanimously expressed its view that it would be better to delete any provision of this character, but that if the Congress insisted upon having it, ~~that~~ it should be limited to guarantees to other governments (and not to persons whether in the United States or in the rest of the Western Hemisphere). It may not be worthwhile for me to offer further comment on this matter until we see what proposal comes out of the debate in the House.

Attachments