BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 7, 1948

To Governor Eccles

From Mr. Knapp

Subject: Mr. Burgess' letter concerning the question of dealing with blocked foreign assets in the United States

JAK

Attached is Mr. Burgess' letter to you dated April 8 concerning the question of dealing with blocked foreign assets in the United States together with a draft reply. I have delayed preparation of this letter pending the Treasury's reply to Mr. Burgess; a copy of Secretary Snyder's letter to Mr. Burgess dated April 29 is also attached.

Briefly, Mr. Burgess' proposal was that instead of helping European countries to obtain possession or control over the blocked assets of their nationals, we might make arrangements whereby on a more or less voluntary basis these nationals would assign their holdings as collateral for loans to be made by the Export-Import Bank under the European Recovery Program.

Secretary Snyder's letter points out a number of technical obstacles to the carrying out of such a plan, and calls Mr. Burgess' attention to the fact that the Congress rejected an amendment offered by Congressman Keating substantially along the lines of the Burgess proposal. A further objection, which I have covered in the reply drafted for your signature, is that foreign countries might well be tempted to default on loans collateraled by the property of their citizens who were seeking to escape their exchange control regulations.

Since this matter was discussed by the Advisory Council with the Board, you may want to circulate copies of this correspondence to the Board. Also you may desire to send the same to Mr. Sproul, with whom Mr. Burgess has apparently been keeping in touch on the matter.

Attachments

MS

COPY)

April 29, 1948

Dear Mr. Burgess:

This is in reply to your letter of April 8, 1948, in which you recommend as a substitute for the National Advisory Council's program, set forth in its letter of February 2, 1948 to Senator Vandenberg, an arrangement whereby the blocked dollar assets of resident citizens of recipient countries be used as collateral for loans to be made by the Export-Import Bank under the Economic Cooperation Act.

In my opinion, this proposal does not present an appropriate solution for handling the blocked dollar assets under the present circumstances. It appears that Congress intended that these private dollar assets constitute a supplement to, and not a source for securing, the financial assistance provided by the Economic Cooperation Act. Section 111(c)(2) which provides for loans through the Export-Import Bank makes no requirement that these loans be collateralized. Moreover, when the Congress was considering the language of Section 115(b)(4) of the Act, which requires agreements relating to the private dollar assets of citizens of recipient countries, it rejected an amendment offered by Congressman Keating to the effect that these assets should be used as ollateral for loans from the Export-Import Bank. Thus, by requiring only that the recipient countries "locate and identify and put to appropriate use" these assets and by not specifying how these assets should be used it appears clear that the Congress intended that these assets constitute a source for further strengthening the balance of payment position of the recipient countries.

I should also like to make two general observations on your substitute proposal and the other substitute proposals which the Council considered in formulating its final program in connection with the blocked dollar assets belonging to resident citizens of recipient countries. In the first place, to the extent that these suggestions were more attractive to the owners of blocked assets the less assistance was rendered the recipient countries in meeting their dollar problems and less benefit resulted to the American taxpayer. Secondly, compulsion by this government through the vesting of residual amounts would be necessary to assure compliance even with the most attractive scheme. Thus, while these various plans might have offered substantial attraction to some of the owners, in order to insure general compliance the United States would have been required

to make the same basic policy decision as in the case of the program adopted by the government.

Sincerely yours,

(Signed) John W. Snyder

Secretary of the Treasury

Mr. W. Randolph Burgess
55 Wall Street
New York 15, New York

cc: Stenger (State), Knapp (FR), Arey (EX-IM), Blau (Commerce), Tirana (ECA), Louchheim (SEC), Luthringer (Fund), Hooker (Bank), Carre (OFLC), and Hilken (OAP)

May 28, 1948

Mr. W. Randolph Burgess,
55 Wall Street,
New York 15, New York.

Dear Randolph:

Many thanks for your letter of April 8, 1948 enclosing a copy of your letter to Secretary Snyder proposing an arrangement whereby the blocked dollar assets held by European nationals would be used as collateral for loans to be made by the Export-Import Bank under the Economic Cooperation Act.

I have now received a copy of Secretary Snyder's reply to you dated April 29, 1948, which seems to me to demonstrate sufficiently that your proposal would not provide an adequate answer to the problem. I might add that the plan seems to me to present a further serious difficulty, namely that European countries would have a strong temptation to default on loans collateraled in the manner you suggested. This would be true since the European country would know that the loss caused by its default would fall not upon the United States Government but on those of its citizens who had been persistently violating its foreign exchange control regulations.

Sincerely yours,

M. S. Eccles.

JBK:mla

FILE COPY