

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 2, 1946.

To Chairman Eccles

Subject: National Advisory Council

From Mr. Knapp

MRK
Meeting.

Governor Szymczak and I today attended the first meeting of the National Advisory Council under the chairmanship of Secretary Snyder. Mr. Snyder conducted business very briskly and despite the very long agenda the meeting was concluded within two hours. Attached is a copy of the agenda for the meeting and the following is a summary of the action taken.

Item 1. Mr. Martin reported that the Export-Import Bank legislation had been approved by the Bureau of the Budget except that they had suggested that the Bank be given a definite life rather than permanent status as a Government agency. The Bank agreed to limit the Bank's life to June 30, 1953, five years beyond its present expiration date. The discussion turned to the question of when the bill should be introduced in Congress and Mr. Clayton moved that action be postponed until the British loan was out of the way in the House (a vote is expected on this matter around July 10) and until the outcome of the Paris Conference became clarified. It was agreed to reconsider this matter next Tuesday and also to consider at that time what steps should be taken by Mr. Martin, Mr. Snyder, and Mr. Clayton to introduce the subject on the Hill prior to formal presentation of the bill to Congress.

There was a brief discussion of the present status of Export-Import Bank lending authority in which the only new feature was that Mr. Martin stated that the Export-Import Bank was no longer seriously considering the 50 million dollar long-term loan to the Netherlands approved by the National Advisory Council on February 13. I am writing you a separate memorandum on this general subject.

Item 2. The Staff Committee proposal for a 3 million dollar Export-Import Bank loan to Ethiopia was approved.

Item 3. The Staff Committee proposal was accepted with one clarifying amendment. The Council has stated that it does not approve consideration of an Export-Import Bank loan to the Philippine Islands at the present time and has instructed the Staff Committee to proceed with studies and recommendations on the internal Philippine budgetary problem, but not to recommend an Eximbank loan as a solution.

There will have to be some intensive work on the Philippine fiscal problem during the next week or so and I shall keep you advised of progress. There seems to be very little chance of getting Congressional legislation for a budgetary loan to the Philippines during this session of Congress, but it

should be possible for the Philippine Government to find ways and means of meeting their deficit at least until Congress resumes next year.

Item 4. In accordance with the Staff Committee's recommendation, the Council declared that it did not approve a long-term development loan to Turkey at the present time but that this action would not preclude "a limited amount of exporter credits to Turkey which may require Turkish Government guarantees".

You will recall that the State Department had originally pressed for a Council action approving 25 million dollars of exporter credits to Turkey. However, agreement was reached in the Staff Committee on the compromise proposal which would not have the Council endorse any specific figure but would still leave the Export-Import Bank free to provide "a limited amount" of credits. In the course of the meeting Mr. Clayton tried to bring the 25 million dollar figure back into the picture by suggesting that the Council indicate its informal understanding that "a limited amount" meant this figure. I objected to this interpretation and pointed out that some of us at least felt that such an amount could not be justified in view of Turkey's large foreign exchange holdings and the generous treatment which Turkey had received from this Government through other channels (Lend Lease and surplus property). In view of the limited amount of Export-Import Bank funds, I doubt whether in fact they can spare 25 million dollars for exporter credits to Turkey, but until and unless the N.A.C. commences to review the exporter credits in detail the Bank retains considerable freedom of action in allocating such credits. At least we have avoided any endorsement by the N.A.C. of the 25 million dollar figure.

Item 5. Following our conversation concerning the terms to be offered to foreign governments by the War Assets Administration, I drafted new language on this subject and introduced it at the Council meeting as a compromise proposal. It was accepted unanimously as follows:

Alternative 3. "The Council recommends that the terms on such credits should ordinarily be the same as those granted by the War Assets Administration to U.S. citizens. However, if the War Assets Administration finds that certain domestic surplus property cannot be disposed of on these terms to U.S. citizens or to foreign governments, the Council recommends that the War Assets Administration, except where limited by its statute, offer such property to any foreign governments which may be interested on credit terms conforming to those extended by the Export-Import Bank for reconstruction and development loans."

General Gregory, head of the War Assets Administration, was supposed to be present at the meeting but resigned a few days ago. Two members of his staff were there and they seemed to be satisfied with the outcome.

Item 6. The proposal to reserve 25 million dollars of Export-Import Bank funds for financing the exportation of air transportation equipment was accepted with very little discussion. It may be interesting to note that Mr. Snyder, in one of his few positive contributions to the discussion during the meeting, commented that he thought this proposal was a good idea in view of the British practice of subsidizing their foreign airlines. Personally I did not feel that this was a very convincing argument, and I hope he will not apply the same logic to other proposals for special export credits.

Item 7. The various papers prepared by the Staff Committee covering International Bank problems were approved by the Council. As a result, the Council has approved:

1. A letter from the Chairman of the Council to the Attorney General asking him to take up through the Council of State Governments the question of state laws concerning the eligibility of International Bank securities as investments for insurance companies, savings banks, trust funds, etc.
2. Letters from the Chairman of the Council to the President of the Senate and the Speaker of the House submitting bills making International Bank securities eligible as investment by insurance companies in the District of Columbia.
3. Advice to the U.S. Director in the Bank that the Council has no objection to the Bank's investment in U.S. Treasury interest bearing securities of the first 2 per cent portion of the U.S. subscription to the Bank, but at the same time advice to the U.S. Director that the United States intends to exercise its right to submit non-interest bearing demand notes in exchange for any part of the 18 per cent portion of the U.S. subscription which is not required by the Bank as working funds.
4. Advice to the U.S. Executive Directors in the Bank and the Fund that the United States has no special terms and conditions which it desires to have attached to the membership of Turkey, Syria, Lebanon, and Italy, but that it sees no reason to act on the

applications of these countries for membership before the September meeting of the Board of Governors of the Bank and Fund. Also submission to the U.S. Executive Directors "for their information" a statistical report prepared by the Staff Committee on proposed quotas and subscriptions for Syria, Lebanon, Turkey, and Italy.

Item 8. Harry White was reported to be on vacation so that the Council still has had no oral report from him and only one written report on purely routine matters.

Pete Collado was present at the meeting, however, and reported briefly on the affairs of the Bank. His report would probably have been longer if it were not for the fact that Will Clayton and John Snyder were both showing evidence of wanting to get away. Pete said that the Bank had virtually completed its plans of organization and staffing although so far the only definite appointment in addition to Meyer and Smith was the naming of Ansel Luxford as Assistant General Counsel.

He summarized the progress being made in getting State and Federal legislation regarding the eligibility of International Bank securities for investment by financial institutions but had no concrete comments to make upon the timing, terms and method of the Bank's initial security offerings.

He stated that the Bank's committee on loan policies was about to complete its work and the the Board of the Bank was going to devote the week of July 15 to consideration of this general problem.

He also described in rather discreet terms a discussion which had developed in one of the Board meetings concerning the respective responsibilities of the President and his staff on one hand and the Executive Directors on the other. I gather that Meyer (who, as you know, serves as Chairman of the Board) made a rather strong statement in support of the importance of the Bank's executive officers and staff, and that a number of the foreign Executive Directors then made speeches indicating their intention to exercise their full powers over the affairs of the Bank. Of course these relationships can only be clarified in the course of the practical operation of the Bank. Pete indicated one specific step which has already been taken in the direction of giving a positive role to the Executive Directors, namely a decision to put at least one Director on every committee which is set up by the Bank to study specific loan applications. The first of such committees will be set up shortly to study the French application for a 500 million dollar loan; this is the only application received thus far by the Bank.

Finally Pete reported the facts which were already known to us concerning the steps the Bank has taken to call up capital. In brief, 2 per cent of the capital becomes payable by August 31 and a further 8 per cent by November 30. The U.S. on June 28 paid its first 5 per cent (157.5 million dollars).

NATIONAL ADVISORY COUNCIL
ON
INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

Agenda

Meeting 32

Tuesday, July 2, 1946
2:30 P.M., Room 4426, Main Treasury

1. Report on Proposed Export-Import Bank Legislation and Status of Export-Import Bank Funds

(Report by Mr. Martin)

2. Ethiopian Loan Request

(NAC Document No. 147 - previously distributed)

3. Philippine Loan Request

(NAC Document No. 140 (Revised) - previously distributed)

4. Turkish Loan Request

(NAC Document No. 148 - to be distributed)

5. Sale of Domestic Surplus to Foreign Governments

(NAC Documents Nos. 141 and 145 - previously distributed;
NAC Document No. 152 - to be distributed)

6. Financing Purchase of U.S. Air Transport Equipment

(NAC Document No. 116 - previously distributed;
NAC Document No. 151 - to be distributed)

7. International Bank Questions Raised by Mr. Collado

(a) Legislation on Eligibility in Various States and the District of Columbia of International Bank Securities as Investments

(NAC Document No. 134 and NAC Staff Document No. 79 -
previously distributed)

(b) Short Term Handling and Investment of Cash, Including Provisions Regarding Two Percent of Capital Payments

(NAC Documents Nos. 132 and 135 - previously distributed;
NAC Document No. 155 - to be distributed)

8. Oral Reports on International Monetary Fund and International Bank

6/28/46

Secretary of the
Council