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REPORT OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

REPORT OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS FOR THE PERIOD OF THE LAST 6 MONTHS

March 8, 1946.—Referred to the Committee on Banking and Currency and ordered to be printed

To the Congress of the United States:

On March 1, 1946, I sent to the Congress a Statement of the Foreign Loan Policy of the United States Government, prepared by the National Advisory Council on International Monetary and Financial Problems. I have now received from the National Advisory Council a report on its activities during the last 6 months.

This report, which describes the manner in which the Council is discharging its duties of coordinating the foreign financial activities of the Government, should be considered by the Congress together with the previous statement of policy.

The report is attached hereto.

Harry S. Truman.

The White House, *March 8, 1946.*

Treasury Department,
Washington, March 4, 1946.

The President,
The White House.

My Dear Mr. President: At its meeting of February 13, 1946, the National Advisory Council on International Monetary and Financial

Problems determined, in accordance with section 4 of the Bretton Woods Agreements Act, to submit to you a report of the activities of the Council since its formation. This report is attached.

The Council has now been in active and continuous operation for a period of 6 months. Although you have been consulted by the Council on various matters and have given general direction to the Council's activities and to its more important actions, the Council considers it appropriate and desirable to furnish you with a brief and connected account of its operations for the whole period.

Faithfully yours,

FRED M. VINSON,
Chairman, National Advisory Council on International Monetary and Financial Problems.

(Enclosure.)

REPORT TO THE PRESIDENT ON ACTIVITIES OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

I. FUNCTIONS AND POWERS OF THE COUNCIL

The National Advisory Council on International Monetary and Financial Problems was established by the Congress in the Bretton Woods Agreements Act (Public Law 171, 79th Cong.), which was approved by the President on July 31, 1945. The statute directs the Council to coordinate the policies and operations of the representatives of the United States on the International Monetary Fund and the International Bank for Reconstruction and Development, the Export-Import Bank of Washington and all other agencies of the Government "to the extent that they make or participate in the making of foreign loans or engage in foreign financial exchange or monetary transactions." The portions of the statute which state the duties of the Council and the powers conferred upon it are appended.

II. ORGANIZATION OF COUNCIL

After consultation with the President as to the general method of operation and tasks to be undertaken, the Council was organized at its first meeting on August 21, 1945. At this meeting, the Council decided upon a relatively simple organization for its initial tasks—one designed to make the maximum use of the existing personnel of the agencies concerned. The Council is assisted by a permanent Staff Committee and by temporary committees selected from time to time for particular tasks and composed of technical personnel from various agencies of the Government. The Council and its committees have a small secretariat.

MEMBERS OF THE COUNCIL

The present members of the Council, according to law, are the following:

The Secretary of the Treasury, Fred M. Vinson, Chairman.
The Secretary of State, James F. Byrnes.
The Secretary of Commerce, Henry A. Wallace.

The Chairman of the Board of Governors of the Federal Reserve System, Marriner S. Eccles.

The Chairman of the Board of Directors of the Export-Import Bank, William McChesney Martin, Jr.

During this period there has been one change in the membership of the Council, Mr. Martin having become Chairman of the Board of Directors of the Export-Import Bank on December 3, 1945, succeeding Mr. Leo T. Crowley.

By agreement, the following serve as alternates for the above members:

Mr. Harry D. White, Assistant Secretary of the Treasury.

Mr. William L. Clayton, Assistant Secretary of State.

Mr. Arthur Paul, Assistant to the Secretary of Commerce.

Mr. J. Burke Knapp, assistant to the Chairman of the Board of Governors of the Federal Reserve System.

Mr. Herbert Gaston, member of the Board of Directors of the Export-Import Bank.

Mr. Frank Coe, Director of Monetary Research of the Treasury Department, is the Secretary of the Council.

STAFF COMMITTEE

The Staff Committee of the Council is composed of technical representatives of the agencies which are represented on the Council and a representative of the Securities and Exchange Commission. This committee collects information for the Council, analyzes proposals for Council action, and prepares reports, memoranda, and recommendations for the Council. Practically all of the matters which come before the Council are accompanied by considerable documentation and it is the function of the Staff Committee to see that this documentation is adequate and that the matters are in such form that the Council can act expeditiously. Therefore, the Council, through the Staff Committee, has the use of the expert staffs of the various agencies of the Government.

MEETINGS AND ACTIONS

The Council meets weekly and at such other times as may be necessary. From August 21, 1945, through February 1946, the members of the Council held 45 meetings on its regular business and on the consideration and negotiation of the financial agreement with the United Kingdom.

The decisions of the Council are embodied in agreed language and are called "Actions of the Council." They are circulated to the agencies of the Government which are concerned with the particular matters. Most of the actions of the Council are brief, giving the essential points of the decision and leaving to the agencies concerned the detailed application of the policies or procedures involved.

All agencies concerned have cooperated fully in making the Council's coordination effective.

III. Background of Work

As the coordinating body for foreign financial problems, the Council, from its inception, has been engaged with the financial problems of reconstruction for peace and settlement of war accounts. These problems have determined the character of the Council's work.

The end of the war found the United States involved in foreign financial operations of unprecedented scope and complexity. The war was one in which our troops traveled and fought in all parts of the world, and in which we carried out the most extensive international economic operations in our history. These operations—of supply, of foreign procurement, and of transport—brought a multitude of problems of financial settlement between the United States and many countries of the world involving disposal of surplus property abroad, lend-lease termination, and the settlement of military currency arrangements. The Council's work, therefore, began in a period when the Government's international financial problems related to its war programs were numerous and complicated.

With the advent of peace, the Government of the United States assumed large and new international responsibilities in relief and rehabilitation, reconstruction, military occupation, and currency stabilization. Every one of these has important financial aspects. The efforts of this country, in collaboration with the other United Nations, to build a peaceful and prosperous international order involve problems as difficult and complex as those of the war.

Just as the end of the war found the United States in a position of great military and political importance in world affairs, so too our foreign economic and foreign financial policies are helping to set the pattern of future economic and financial relations among nations. The influence of the United States in international trade and finance is especially great in contrast with the weakened position of many other countries. Most of the nations of Europe and of Asia have enormous jobs of reconstruction. They need to import far more goods than ever before and their capacity to export is temporarily low.

These problems were foreseen and the United States Government took a leading part in preparing to deal with them. UNRRA was set up to assist with the immediate problems of relief and rehabilitation. The International Monetary Fund was projected to help achieve stability of exchange rates and relaxation of obstructive exchange restrictions. The International Bank for Reconstruction and Development was planned to give financial assistance for the restoration of war-damaged economies and to assist the development of backward areas. The lending power of the Export-Import Bank was expanded primarily to help bridge the gap until the International Bank could come into effective operation.

The war-devastated countries are turning to the United States for financial assistance. The requests for credits are large. The specific day-to-day decisions which have to be made on these questions are of tremendous importance to the foreign countries and to ourselves.

In the past 6 months the Council has made necessary preparations for the speedy establishment of the International Fund and the International Bank. One of the major tasks of the members of the Council and their staffs over three of these months was the negotiation with the United Kingdom of the financial agreement and the war settlement. An equally large undertaking closely associated with the first two has been the development of a program and policies for reconstruction loans. In addition, throughout the whole period the Council has given much attention and time to the coordination of the financial aspects of the war settlements with various countries. These will be negotiated during the next few months by the State Department.

The more important of these activities of the Council are summarized in the following sections.

IV. Inauguration of the International Monetary Fund and the International Bank for Reconstruction and Development

The Council has carried out the work related to the initial problems of organization, procedures, and policies of the International Monetary Fund and the International Bank for Reconstruction and Development. United States views respecting these matters have been drafted, informal discussions have been held with representatives of a number of other countries, and revised documents have been prepared in the light of these discussions. The Council has discussed and come to agreement upon the major matters to be decided with the other member countries at the inaugural meetings in Savannah. Draft documents on the necessary subjects have been prepared for the guidance and use of the Governor for the United States.

The planning, preparation of necessary drafts, and the technical consultations with the representatives of foreign governments were carried out by the Council's Technical Committee on the Fund and Bank. This Committee was composed of representatives of the agencies which make up the Council, plus a representative of the Securities and Exchange Commission, and was under the chairmanship of Harry D. White, Assistant Secretary of the Treasury.

By December 31, 1945, a sufficient number of countries had taken the necessary steps to join the two international organizations and their establishment according to the Articles of Agreement was assured.

Of the original 44 signatories, the following 34 countries had joined both the Fund and Bank by the end of 1945:

Belgium	Ethiopia	Norway
Bolivia	France	Paraguay
Brazil	Greece	Peru
Canada	Guatemala	Philippines
Chile	Honduras	Poland
China	Iceland	Union of South Africa
Costa Rica	India	United Kingdom
Cuba	Iran	United States
Czechoslovakia	Iraq	Uruguay
Dominican Republic	Luxembourg	Yugoslavia
Ecuador	Mexico	
Egypt	Netherlands	

In addition, Colombia joined the Fund but not the Bank. The United States accepted membership in the two organizations on December 20, 1945.

The above countries have quotas aggregating $7,324,500,000 in the International Monetary Fund. The subscriptions of the countries which have joined the International Bank for Reconstruction and Development total $7,600,000,000.

Under the Articles of Agreement of the Fund and the Bank, the Government of the United States is responsible for calling the first meeting of the Boards of Governors of these institutions. Accordingly, the State Department on January 28, 1946, sent invitations to member countries to participate in such a meeting at Savannah, Ga., beginning March 8, 1946. The following countries, which signed the Articles of Agreement at Bretton Woods, but which have not taken the steps necessary for adherence, were invited to send observers:

Australia	Liberia	Union of Soviet Socialist Republics
Denmark	New Zealand	Venezuela
El Salvador	Nicaragua	
Haiti	Panama	

For the United States the President nominated the following to be the United States representatives on the two international financial organizations:

- Governor for the United States of the Fund and the Bank: Secretary of the Treasury, Fred M. Vinson.
- Deputy Governor for the United States of the Fund and the Bank: Assistant Secretary of State, William L. Clayton.
- Executive Director for the United States of the Fund: Assistant Secretary of the Treasury, Harry D. White.
- Executive Director for the United States of the Bank: Mr. Emilio G. Collado, Deputy on Financial Affairs, Department of State.

The Senate confirmed these nominations on February 6, 1946.

V. The Financial Agreement with the United Kingdom

Shortly after the establishment of the Council, a British delegation was sent to the United States to negotiate with this country on problems of financial assistance, commercial policy, lend-lease settlement, and disposal of surplus property. These negotiations were carried out on the American side by a committee under the chairmanship of Secretary of State Byrnes. The members of the top United States committee included all the members of the National Advisory Council. The financial discussions were carried on by a financial committee under the chairmanship of Secretary of the Treasury Vinson and composed of the members of the National Advisory Council.

The problems involved in the financial agreement with the United Kingdom are related to practically all the other foreign financial problems with which this Government and the Council must deal.

Our foreign financial and foreign economic programs are aimed at the avoidance of economic warfare and rival blocs and the creation of a peaceful and prosperous world economy. The Council considers the financial agreement with the United Kingdom vital to the entire international economic program of this Government.

VI. Reconstruction Loans

The Council has given careful consideration to the numerous and varied problems involved in the foreign loan program of the United States. The general policies formulated by the Council were expressed in the Statement of the Foreign Loan Policy of the United

States Government (reproduced below); which was submitted to the Congress by the President on March 1, 1946. It is the opinion of the Council that there is now an efficient working machinery for the proper consideration of foreign loan requests, for the coordination of the loan facilities of this Government. and for the full integration of the loan policy with all aspects of the foreign economic policy of this Government.

GOVERNMENTAL PROCEDURE FOR THE CONSIDERATION OF FOREIGN LOANS

The Council has given considerable attention to improving the procedure for the consideration of foreign loans by this Government. There are several agencies of the Government through which foreign loans and credits can be made under existing authority. In the recent period there have been a number of requests for foreign loans which would have required special congressional action. In the near future the International Bank will also be making dollar loans to foreign countries. In addition to the agencies which make foreign loans or extend credits, there are certain agencies of the Government which have in the past negotiated or participated in the negotiation for foreign loans or made commitments for foreign loans. Finally there are other agencies which, although not involved in making or negotiating foreign loans, are concerned with the foreign loan policy and the purposes for which the money is spent.

Before the establishment of the Council this area of work was not coordinated and there was a certain amount of confusion and overlapping. The Council has given close attention to these problems and has installed a procedure to insure the more orderly consideration of requests and proposals for foreign loans.

Under this procedure all requests and proposals for loans come to the Council before any commitment has been made by any agency of this Government. This gives the Council an opportunity to consider the loan from the standpoint of the Government's loan policy and to draw in any parts of the Government which may be concerned with special policy aspects of the proposal. This central consideration with a number of agencies participating makes for a more thorough study of the conditions precedent to a loan. It also enables the Council to decide through what instrumentality the loan or credit is to be made and what agency or agencies should participate in the negotiations.

The procedure which is now in force is described in the following action of the Council:

1. Any agency of the United States Government which receives a request for a foreign loan or which proposes to recommend that a foreign loan be made, should, when such request is received or when the proposal is formulated, so inform the National Advisory Council on International Monetary and Financial Problems through the Secretary of the Council.
2. The Council will consider the request or proposal from the standpoints of policy and coordination. The Council will communicate its action, if any, to the agency (or agencies) which is to be responsible for conducting the loan negotiations.
3. Such agency (or agencies) will conduct its negotiations for any loan in accordance with the policies of the Council, consulting the Council as to desired changes in policy.
4. When the designated agency (or agencies) has completed negotiations for a loan or otherwise taken final action, it should notify the Council and furnish copies of the contract and other documents involved.

GENERAL FINANCIAL POLICY CONSIDERATIONS

In its consideration of foreign loans, when they are first proposed or requested, the Council considers such questions as—

The need for a loan, as indicated by the balance of payments and foreign exchange position of the borrower;

Ability to repay, as indicated by the economic and financial prospects of the country involved;

Alternative sources for the loan, such as the International Bank, private investors, other foreign countries; and the

Amount of the loan, involving the allocation of the limited funds available.

For these purposes, analysis is made of the country's foreign exchange position, investment position, balance of payments, gold production, debt status, volume of foreign trade and anticipated economic, financial and monetary developments.

INTEREST RATES ON LONG-TERM LOANS FOR RECONSTRUCTION AND DEVELOPMENT BY THE EXPORT-IMPORT BANK

One of the most difficult problems which confronted the Council was the question of interest rates on Export-Import Bank long-term loans. On the one hand there was the obvious fact that interest and amortization payments on loans designed to speed the reconstruction of devastated foreign countries should be sufficiently moderate not to impose an intolerable burden on the borrower. On the other hand were considerations of the cost of money to the United States and the need of the Export-Import Bank for an adequate reserve against possible losses.

In its decision the Council also took account of such factors as possible rates of interest to be charged by the International Bank, present and prospective rates for foreign borrowing in the private capital market, the possibility of reselling to the public foreign securities acquired by the Export-Import Bank, previous governmental commitments respecting interest rates, and the previous policies of the Export-Import Bank.

After full consideration, the Council determined that the general rate of interest for 20- to 30-year Export-Import Bank loans to foreign governments for reconstruction and development should be 3 percent, and that loans or credits to finance the purchase of goods requisitioned under lend-lease were to be made upon the same terms as were given to the Lend-Lease 3 (c) agreements, namely, a rate of interest of 2⅜ percent for 30-year loans.

SUPPLY CONSIDERATION AND FOREIGN CREDITS

The Council's Statement of the Foreign Loan Policy of the United States Government makes it clear that the present foreign-loan activities of this Government are based upon detailed and continuing consideration of the impact of such activities on our domestic economy.

Screening by the Export-Import Bank, allocations and export control operate to prevent foreign expenditures of loan proceeds from creating undue shortages in this country.

Further to deal with these problems, the Council has established the following procedure:

In the case of all foreign loans or credits which involve exportation of goods from the United States, it shall be the responsibility of the agency which is extending the loan or credit to furnish to the Department of Commerce, at the appropriate time, information as to the amounts and types of products which are likely to be procured together with, so far as practical, a schedule of the expected dates of purchase and dates of export. The Department of Commerce will furnish the lending agency with an analysis of the significant effects of such purchases upon United States markets of these commodities, taking account of total known and foreseeable domestic and foreign demand. When the proposed foreign purchases of specific products might seriously aggravate difficult domestic supply problems, the Department of Commerce will also make recommendations to the lending agency, considering both the relative urgency of the foreign need and the impact on domestic markets. Copies of such recommendations should be forwarded to the Secretary of the National Advisory Council for the information of the members of the Council. It shall further be the responsibility of the Department of Commerce to furnish the National Advisory Council for its guidance from time to time with analyses of the effects of foreign lending by the Government and by private investors upon domestic supply conditions.

PREREQUISITES FOR LOANS

The major contribution of our foreign-loan program to the welfare of the American people is the assistance of this program in reconstruction abroad and the consequent achievement of a high level of economic activity at home and abroad. However, the question has been raised as to whether in the making of foreign loans this country is making an adequate attempt to get economic, political, and financial concessions in return for the loans. No sovereign nation will in return for a loan grant concessions which impair its sovereignty, endanger its security, or arouse the opposition of its people, and, of course, the United States has no disposition to seek such concessions.

During this period the United States Government has been carrying on negotiations with foreign countries on many separate subjects, such as commercial policy, the rights of our citizens and business abroad, sale of surplus property, and the settlement of war accounts. It is appropriate that some of these matters snould be joined with loan discussions, and that the attitude of the United States Government toward making a loan should in part be conditioned upon the attitude of the borrowing countries toward other matters under discussion. It is a question of judgment in each case as to which of these separate negotiations should be joined together. The Council has served as a coordinating mechanism for this purpose. A number of the Council's actions, for example, have concerned "general settlements" similar to the negotiations with the British, in which financial assistance, lend-lease, surplus property, war claims, and commercial policy discussions went forward at the same time.

SPECIFIC LOANS

In this period the Council has approved for consideration by the Export-Import Bank the following foreign loans for which contracts have been signed:[1]

[1] In comparing this table with the data presented in the Council's Statement of Foreign Loan Policy, account should be taken (1) that certain loans were made by the Bank in this fiscal year prior to the operation of the Council and (2) that certain of the loans in the table above were contracted after January 1, 1946, and are therefore not included in the statement.

[In millions of dollars]

	Export-Import financing of—		Total
	Goods requisitioned under lend-lease	Reconstruction goods	
Belgium	55	45	100
Finland		35	35
France	550		550
Greece		25	25
Netherlands	50	50	100
Total	655	155	810

An additional $100,000,000 has been authorized by the Bank for special credits for the export of cotton, and in this period the Bank has made other smaller loans.

The Council has also approved for consideration by the Export-Import Bank credits to the following countries:

China
Czechoslovakia
Netherlands
Netherlands East Indies
Poland
Union of Soviet Socialist Republics

A number of proposals and requests have come before the Council for which it has not yet given the authorization to negotiate.

FOREIGN LOAN POLICY

There is appended to this report the Council's Statement of the Foreign Loan Policy of the United States Government, together with Secretary Vinson's letter of transmittal to the President and the President's message to the Congress endorsing the statement.

VII. War Settlement Problems

The Council has centralized financial settlements with foreign countries arising from the war. This work includes the lend-lease settlements, financial terms for the disposal of surplus property abroad, payment for currencies provided our military forces during the war, and settlement of other war claims.

In some cases all pending financial settlements have been negotiated at one time. An over-all settlement of this type was concluded with the United Kingdom, December 6, 1945, and a provisional settlement with Belgium was announced by the State Department in October 1945. Discussions are proceeding for over-all settlements with a number of other countries.

FINANCIAL ASPECTS OF LEND-LEASE SETTLEMENTS

The Council has considered and approved the general principles for the lend-lease settlements with various countries. The negotiations will be carried on by the State Department, which has the primary responsibility for these settlements. As in the case of the lend-lease settlement with the United Kingdom, it will be the effort of this Government in these negotiations to effect a complete settlement of all outstanding lend-lease and reciprocal-aid problems. The financial arrangements which have been approved for these settlements are not entirely uniform, and provision has been made for adjustment to the circumstances of particular countries.

SURPLUS PROPERTY ABROAD

With regard to financing of surplus-property sales abroad, the following actions of the Council are in effect, except as previous commitments have been carried forward:

(*a*) The Foreign Liquidation Commissioner shall obtain as large an immediate payment in United States dollars as possible insofar as this could be done without unduly reducing the total proceeds;

(*b*) When sales cannot be made for cash payment in dollars, the Foreign Liquidation Commissioner may extend credits repayable in dollars with provisions for accelerated payments in local currency for use in meeting United States governmental expenditures in that country;

(*c*) In exceptional circumstances, the Foreign Liquidation Commissioner may accept local currency in such amounts and under such conditions as the State Department in consultation with the Treasury Department deems appropriate;

(*d*) Insofar as practicable, Export-Import Bank funds should not be used to purchase goods in the United States of the same types or kinds as are available as United States surplus property whether located in a borrowing country, in other foreign countries, or in the United States or its Territories;

(*e*) Export-Import Bank funds should not be used to finance the purchase of surplus property which can be sold on credit terms by the surplus-property disposal agencies under their existing powers. The Export-Import Bank and the surplus disposal agencies should take appropriate action to effectuate this policy.

VIII. Conclusion

The experience of the Council in its first 6 months of operations has, in the unanimous judgment of its members, fully confirmed the wisdom of the congressional decision to establish a Cabinet-level group charged with the responsibility of coordinating all of the foreign financial activities and interests of this Government. In view of the extreme complexity of the numerous problems now confronting the United States in this field and their close interrelationship, the existence of such a body is indispensable to the development and execution of a sound and consistent policy. The Council feels that real progress has been made toward the achievement of the objectives of this congressional mandate and the formulation of a coherent and intelligible foreign financial policy.

This report has discussed only those aspects of the foreign financial activities and interests of the Government which it has been possible to consider in the relatively short period of time in which the Council has operated. In selecting these subjects for immediate attention and excluding other foreign financial problems of this Government, the Council has in general acted upon the basis of a judgment as to the urgency and magnitude of the problems involved in relation to our over-all foreign financial program.

FRED M. VINSON,
Secretary of the Treasury,
Chairman of the National Advisory Council on International Monetary and Financial Problems.

JAMES F. BYRNES,
Secretary of State.

H. A. WALLACE,
Secretary of Commerce.

MARRINER S. ECCLES,
Chairman of the Board of Governors of the Federal Reserve System.

WM. McC. MARTIN, Jr.,
Chairman of the Board of Directors of the Export-Import Bank of Washington.

MARCH 4, 1946.

APPENDIX A

Sections of the Bretton Woods Agreements Act Relating to the National Advisory Council

(Public Law 171, 79th Cong.)

National Advisory Council on International Monetary and Financial Problems

Sec. 4. (a) In order to coordinate the policies and operations of the representatives of the United States on the Fund and the Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary transactions, there is hereby established the National Advisory Council on International Monetary and Financial Problems (hereinafter referred to as the "Council"), consisting of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Export-Import Bank of Washington.

(b) (1) The Council, after consultation with the representatives of the United States on the Fund and the Bank, shall recommend to the President general policy directives for the guidance of the representatives of the United States on the Fund and the Bank.

(2) The Council shall advise and consult with the President and the representatives of the United States on the Fund and the Bank on major problems arising in the administration of the Fund and the Bank.

(3) The Council shall coordinate, by consultation or otherwise, so far as is practicable, the policies and operations of the representatives of the United States on the Fund and the Bank, the Export-Import Bank of Washington and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions.

(4) Whenever, under the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the approval, consent or agreement of the United States is required before an act may be done by the respective institutions, the decision as to whether such approval, consent, or agreement, shall be given or refused shall (to the extent such decision is not prohibited by section 5 of this Act) be made by the Council, under the general direction of the President. No governor, executive director, or alternate representing the United States shall vote in favor of any waiver of condition under article V, section 4, or in favor of any declaration of the United States dollar as a scarce currency under article VII, section 3, of the Articles of Agreement of the Fund, without prior approval of the Council.

(5) The Council from time to time, but not less frequently than every six months, shall transmit to the President and to the Congress a report with respect to the participation of the United States in the Fund and the Bank.

(6) The Council shall also transmit to the President and to the Congress special reports on the operations and policies of the Fund and the Bank, as provided in this paragraph. The first report shall be made not later than two years after the establishment of the Fund and the Bank, and a report shall be made every two years after the making of the first report. Each such report shall cover and include: The extent to which the Fund and the Bank have achieved the purposes for which they were established; the extent to which the operations and policies of the Fund and the Bank have adhered to, or departed from, the general policy directives formulated by the Council, and the Council's recommendations in connection therewith; the extent to which the operations and policies of the Fund and the Bank have been coordinated, and the Council's recommendations in connection therewith; recommendations on whether the resources of the Fund and the Bank should be increased or decreased; recommendations as to how the Fund and the Bank may be made more effective; recommendations on any other necessary or desirable changes in the Articles of Agreement of the Fund and of the Bank or in this Act; and an over-all appraisal of the extent to which the operations and policies of the Fund and the Bank have served, and in the future may be expected to serve, the interests of the United States and the world in promoting sound international economic cooperation and furthering world security.

(7) The Council shall make such reports and recommendations to the President as he may from time to time request, or as the Council may consider necessary to more effectively or efficiently accomplish the purposes of this Act or the purposes for which the Council is created.

(c) The representatives of the United States on the Fund and the Bank, and the Export-Import Bank of Washington (and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions) shall keep the Council fully informed of their activities and shall provide the Council with such further information or data in their possession as the Council may deem necessary to the appropriate discharge of its responsibilities under this Act.

Further Promotion of International Economic Relations

SEC. 14. In the realization that additional measures of international economic cooperation are necessary to facilitate the expansion and balanced growth of international trade and render most effective the operations of the Fund and the Bank, it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations. In considering the policies of the United States in foreign lending and the policies of the Fund and the Bank, particularly in conducting exchange transactions, the Council and the United States representatives on the Fund and the Bank shall give careful consideration to the progress which has been made in achieving such agreement and cooperation.

APPENDIX B

The PRESIDENT,
The White House.

MY DEAR MR. PRESIDENT: The National Advisory Council on International Monetary and Financial Problems herewith submits a Statement of the Foreign Loan Policy of the United States Government, together with an appended table showing loan authorizations by the Export-Import Bank. This statement is submitted for your consideration and approval.

Since the organization of the Council in August 1945 it has been coordinating, as directed by law, the policies and operations of all governmental agencies which deal with foreign financial transactions.

At an early date the Council undertook to consider proposals and applications for foreign loans, and to study the problems and broad implications of foreign lending. The statement which is now submitted to you is an outgrowth of these activities of the Council and represents our present views. The Council will continue to study these matters and will report further to you as the rapidly changing conditions at home and abroad may require.

Faithfully yours,

FRED M. VINSON,
Chairman, National Advisory Council on International Monetary and Financial Problems.

(Enclosure.)

To the Congress of the United States:

On July 31, 1945, the Bretton Woods Agreements Act became law. In that legislation the Congress established the National Advisory Council on International Monetary and Financial Problems—

> in order to coordinate the policies and operations of the representatives of the United States on the Fund and the Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary transactions.

The Congress provided that the membership of the Council should consist of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Export-Import Bank of Washington.

On August 9, 1945, the Secretary of the Treasury submitted for my approval a proposal as to the manner in which the National Advisory Council should proceed in performing the task assigned it. The essence of this proposal is contained in the following excerpt from the communication which the Secretary of the Treasury sent to me:

> As you can see from the attached memorandum, the United States Government is now extending financial assistance to foreign governments through a large number of programs, administered by different departments and agencies, and with different procedures for inter-agency consultation. In order for the Council

to carry out the functions assigned to it, it seems to me necessary that the Council should have a picture of the over-all program of financial transactions which it is proposed to carry out in the next period. On such a basis we can make decisions in a rational way, strike the best bargains with foreign countries, and save money for the taxpayer.

On August 10, 1945, I expressed my complete approval of the proposal and requested the Council to proceed along the lines indicated. Promptly thereafter the Council completed its organization and commenced to function without delay. Since that time the Council has labored unremittingly in the performance of its duties.

I have now received from the National Advisory Council a document containing significant conclusions concerning the entire problem of foreign lending. The Council in submitting the document to me stated:

> At an early date the Council undertook to consider proposals and applications for foreign loans, and to study the problems and broad implications of foreign lending. The statement which is now submitted to you is an outgrowth of these activities of the Council and represents our present views. The Council will continue to study these matters and will report further to you as the rapidly changing conditions at home and abroad may require.

This document, which is based upon the careful study and direct experience of the body established by the Congress to coordinate the foreign financial activities of this Government, I now transmit to the Congress for its information and consideration. The document is attached hereto.

I fully endorse the recommendations of the National Advisory Council. Furthermore, I wish to emphasize that in my judgment the successful execution of this policy, including the implementation of the financial agreement with the United Kingdom, which I transmitted to the Congress on January 30, 1946, is of basic importance in the attainment of the objectives of the economic foreign policy of the United States. The international economic cooperation, which is the keynote of our economic foreign policy, must accompany international political cooperation, and we must achieve both if world peace is to be enduring.

The statement of the National Advisory Council concerning foreign loans reaches the conclusion that the Export-Import Bank will require during the next fiscal year additional lending authority of 1¼ billion dollars. I endorse this conclusion, and at a later date I will discuss further with the Congress the need of appropriate legislation.

HARRY S. TRUMAN.

THE WHITE HOUSE, *March 1, 1946.*

[National Advisory Council Document No. 70-A]

FEBRUARY 21, 1946.

STATEMENT OF THE FOREIGN LOAN POLICY OF THE UNITED STATES GOVERNMENT BY THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

1. The foreign-loan program of the United States, by assisting in the restoration of the productive capacities of war-devastated countries and by facilitating the sound economic development of other

areas, is directed toward the creation of an international economic environment permitting a large volume of trade among all nations. This program is predicated on the view that a productive and peaceful world must be free from warring economic blocs and from barriers which obstruct the free flow of international trade and productive capital. Only by the reestablishment of high levels of production and trade the world over can the United States be assured in future years of a sustained level of exports appropriate to the maintenance of high levels of domestic production and employment.

By far the greatest part of the program of reconstruction is being carried out with the resources of the war-devastated countries. UNRRA takes care only of those immediate relief needs which cannot be met out of the resources of the countries involved. Another part of this program is being carried out through sales of surplus property, such sales being made on credit terms or for local foreign currencies where sales for cash payment in United States dollars cannot be made. The rest of the job must be handled on a loan basis.

2. The International Bank will be the principal agency to make foreign loans for reconstruction and development which private capital cannot furnish on reasonable terms. It provides a means by which the risks as well as the benefits from international lending will be shared by all of its members. It is expected that the International Bank will begin lending operations in the latter half of 1946 and that during the calendar year 1947 the International Bank will assume the primary responsibility for meeting the world's international capital requirements that cannot be met by private investors on their own account and risk. With its present membership, the International Bank will be authorized to lend approximately 7.5 billion dollars. The bulk of the funds for the loans made through the International Bank will be raised in the private capital markets of member countries, particularly in the United States. However, since this new institution will take time to develop a lending program, it will probably not be in a position to enter into more than a small volume of commitments this year.

3. The proposed loan to Britain, requiring congressional authorization, is a special case, but one which is an integral part of the foreign economic program of this Government. No other country has the same crucial position in world trade as England. Because of the wide use of the pound sterling in world trade, the large proportion of the world's trade which is carried on by the countries of the British Empire, and the extreme dependence of England upon imports, the financial and commercial practices of Britain are of utmost significance in determining what kind of world economy we shall have. The early realization of the full objectives of the Bretton Woods program, including the elimination of exchange restrictions and other barriers to world trade and investment, requires an immediate solution to Britain's financial problem. The International Monetary Fund agreement permits the continued imposition of certain of these restrictions for as much as 5 years; in the financial agreement of December 6, 1945, the British agree to their removal within 1 year from the effective date of that agreement. It is the view of the Council that the British case is unique and will not be a precedent for a loan to any other country.

4. In July 1945 the Congress, for the purpose of making loans to war-devastated areas during the period prior to the inauguration of the International Bank and for the promotion of American exports and other special purposes, increased the lending power of the Export-Import Bank by 2.8 billion dollars, making its total lending power 3.5 billion dollars. At the end of 1945 the Export-Import Bank had outstanding commitments, including money authorized for cotton loans, of 1,560 million dollars of which 1,040 million dollars was committed in the last half of 1945. The 1,040 million dollars of commitments made during the last half of 1945 consisted of—

(*a*) 655 million dollars for the purchase of goods which originally had been included in the lend-lease program to Belgium, Netherlands, and France;

(*b*) 165 million dollars for the purchase of other goods and services necessary for the reconstruction of Belgium, Denmark, Netherlands, and Norway;

(*c*) 100 million dollars available to various European countries, including Finland, Belgium, Czechoslovakia, France, Italy, Netherlands, and Poland, for the purchase of raw cotton; and

(*d*) 120 million dollars for specific export and development programs, mostly to Latin-American countries.

On January 1, 1946, the Export-Import Bank had unused lending power of 1.9 billion dollars for making additional commitments. In addition to the 1.9 billion dollars, there will be available during the fiscal year 1947 about 50 million dollars from repayment of principal and an additional sum (possibly 100 million dollars) from the cancellation of earlier commitments.

5. Pending the effective operation of the International Bank, it has been the policy of this Government to limit loans through the Export-Import Bank for reconstruction and development to the immediate minimum needs of the borrower. Among the factors taken into consideration in making loans of this character are (1) the urgency of the need of the borrower; (2) the borrower's own resources; (3) the possibility of obtaining the loan from other sources: Private capital markets and other governments; (4) the ability of the borrower to make effective use of the funds; (5) the capacity of the borrower to repay; and (6) the impact of the loan on our domestic economy.

6. It is the view of the Council that, pending the establishment and operation of the International Bank, this Government can meet only a small proportion of the undoubtedly large needs of foreign countries for credits for reconstruction and development.

After careful consideration of all factors, the Council has concluded that the most urgent foreign needs will involve negotiations for loan commitments by the Export-Import Bank of approximately 3¼ billion dollars in the period from January 1946 through June 1947. This is exclusive of the proposed credit to Britain.

Since the available funds of the Export-Import Bank are about 2 billion dollars, it will be necessary in order to carry out this program to ask Congress to increase the lending authority of the Bank by 1¼ billion dollars. Although this is a substantial increase, the Council believes that it is a minimum figure.

It is only through careful screening that it will be possible to carry out the program within the limits of the additional funds which the Congress will be asked to make available to the bank. It is the established policy of the United States Government carefully to scrutinize each loan application to determine that the need is urgent and that the funds can be obtained from no other source than the Export-Import Bank.

7. On balance the loan program will be beneficial to our domestic economy. In the transition from war to peace, expanded foreign trade will not only assist the reconstruction of foreign countries, but also ease the reconversion problem of a number of domestic industries.

During the war many of our important industries, particularly in the field of capital goods, were built up to capacities far in excess of any foreseeable peacetime domestic demands. With the elimination of war demands, much of this American productive capacity may be unused. Such a situation has already arisen, for instance, with reference to railroad equipment, machine tools, power and transmission equipment, and certain types of general industrial machinery. This is also true for some of the metals, heavy chemicals, synthetic rubber, and other industrial materials. Similarly, we have quantities of cotton, tobacco and other agricultural products which are surplus to domestic needs. It is fortunate that this excess productive capacity is for many items which are most urgently needed by the war-devastated countries.

However, a part of the foreign demand will fall on products which are at present scarce in American markets. The Department of Commerce estimates that perhaps one-fourth of the proceeds of foreign loans will be spent on such products. In these cases the export demand, although small in relation to current domestic demand, contributes to inflationary pressures in the United States economy, and allocation and export controls must be maintained in order both to prevent any undue drain on domestic supplies and to assure that the minimum essential needs of other countries are met.

In this connection, account must be taken not only of the fact that there is an inevitable delay in the spending of the loans but also that the Export-Import Bank discourages the employment of loan proceeds for the purchase of commodities in scarce supply. It is also the policy of the Government to prevent the proceeds of loans from being used to purchase goods in the United States market when similar supplies are for sale as surplus property.

The figure of 3¼ billion dollars in requirements through the fiscal year 1947 represents anticipated commitments and not amounts which will be actually loaned or spent. For example, on January 1, 1946, the net outstanding loans of the Export-Import Bank amounted to only 252 million dollars although the total amount committed was 1.6 billion dollars. In order to permit foreign governments to plan their import programs and to permit United States producers to schedule their production, loan commitments by the Export-Import Bank must be made well in advance of actual use of loan funds.

In view of these considerations, it is believed that a foreign lending program adequate to meet the minimum needs of foreign countries will provide additional production and employment in many American industries, and that any temporary sacrifice involved in other areas of the economy will be small compared to the long-range advantages to the United States of a peaceful, active, and growing world economy.

8. A basic question to be considered is whether at a later period foreign countries will be able to service large American loans and

investments. There is little doubt regarding the ability of debtor countries after their economies have been fully reconstructed to increase their national income sufficiently to handle the service charges on American loans and investments, providing an undue part of national income of borrowing countries is not diverted to military expenditures. This increase can be brought about through the modernization of economically backward areas, increased employment, and the utilization of new productive techniques, and well-directed foreign loans will make an important contribution to this development.

The ability of borrowing countries to develop an export surplus sufficient to meet service charges on foreign loans will depend in large measure upon the level of world trade. A high level of world trade will in turn depend upon the maintenance of a high level of world income and a reduction of the barriers to international trade which have grown up in the past. A high level of world income, and of national income in the United States, will be greatly influenced by the domestic economic policies of the United States and of other major countries. It is expected that the proposed International Trade Organization will play an important role in securing the international economic environment necessary for the maintenance of high levels of world trade. The operation of the International Monetary Fund should assure the orderly functioning of a system of multilateral payments, and this will make it possible for debtor countries to convert their export surplus with any country into the currency in which their obligations must be discharged.

9. Fundamentally, however, the ability of foreign countries to transfer interest and amortization on foreign loans to the United States depends upon the extent to which we make dollars available to the world through imports of goods and services, including personal remittances and tourist expenditures, and through new investments abroad. As a last resort, the world outside of the United States has a current gold production of possibly 1 billion dollars per year to add to their present foreign exchange reserves, which can be dipped into to insure payment.

As long as new American investment exceeds interest and amortization on outstanding foreign investment, the question of net repayment on our total foreign investment will not arise, although as individual investments are paid off the composition of our foreign investment may shift. It is impossible to prophesy when receipts on foreign investment will exceed new investment, as American investment abroad will depend on many future developments. In a world of peace, prosperity, and a liberal trade policy, there may well be a revival and continuation of American private investment on a large scale, including a reinvestment of the profits of industry, that will put the period of net repayment far in the future. Such an increase of investment is a natural and wholesome development for a wealthy community.

When net repayment begins, whether this be a few years or many decades from now, it will involve an excess of imports of goods and services (including foreign travel by Americans) over our total exports of goods and services. The growth in our population and the depletion of our natural resources and the increase in our standard of living will increase the need for imported products, and these developments together with the maintenance of a high and stable level of employment will facilitate this adjustment. The annual interest and amortization payments on the entire present and contemplated Export-Import Bank program, the British loan, and the International Bank loans floated in United States markets will be less than 1 billion dollars. The receipt of payments on our foreign loans in the form of goods and services is entirely consistent with increased exports from this country and rising production at home, and will contribute to a rising living standard in the United States in the same way that a private individual's earnings on his investments make possible an increase in his own living standard.

10. The loan policies stated here are in full accord with the basic political and economic interests of the United States. The National Advisory Council, which was established by the Congress in the Bretton Woods Agreement Act and consists of the Secretary of the Treasury, as chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Export-Import Bank, has the responsibility of coordinating the lending and credit programs of this Government, and of achieving maximum consistency between American Government lending and the lending operations of the International Bank.

This country is supporting the United Nations Organization wholeheartedly, and the success of the United Nations Organization depends not only on political agreement but also on economic improvement. These loans are for economic reconstruction and development. They will enable the borrowing countries to increase their own production, relieve their foreign trade from excessive regulation, and expand their trade with us. Economic stability will foster peace. This program of foreign lending is essential to the realization of the main objective of the foreign economic policy of the United States, which is to lay the economic foundations of the peace.

FRED M. VINSON,
Secretary of the Treasury,
Chairman of the National Advisory Council on International Monetary and Financial Problems.

JAMES F. BYRNES,
Secretary of State.

H. A. WALLACE,
Secretary of Commerce.

M. S. ECCLES,
Chairman of the Board of Governors of the Federal Reserve System.

WM. McC. MARTIN, JR.,
Chairman of the Board of Directors of the Export-Import Bank of Washington.

Loans authorized by Export-Import Bank of Washington subsequent to June 30, 1944 (as of Dec. 31, 1945)

County and obligor	Date of authorization	Amount of authorization (in millions of dollars)	Purpose
Latin America:			
Brazil: Lloyd Brasileiro	Sept. 11, 1945	38.0	Purchase of cargo vessels.
Chile:			
Chilean State Railways (Baldwin Locomotive Works).	July 13, 1945	1.2	Purchase of locomotives.
Chilean State Railways (Electrical Export Corporation).	do	2.0	Purchase of electrical equipment.
Fomento Corporation	Sept. 11, 1945	28.0	Purchase of steel-mill equipment.
Do	do	5.0	Purchase of electrical and other equipment.
Ecuador: Republic of Ecuador	July 13, 1945	1.0	Purchase of engineering services.
Mexico: United States of Mexico [1]	Mar. 21, 1945	10.0	Highway construction, equipment, and services.
Nacional Financiera [1]	Mar. 21, 1945	20.0	Purchase of electrical equipment.
Fred Leighton	Oct. 23, 1945	.15	Import of Mexican handicraft.
Peru: Cia. Peruana Del Santa [1] (Westinghouse Electric International Co.).	June 12, 1945	.35	Purchase of Electrical equipment.
Total, Latin America		105.7	
Europe:			
Belgium:			
Kingdom of Belgium	Sept. 11, 1945	55.0	Purchase of United States goods and services (Lend-Lease 3-c terms).
Do	do	45.0	Purchase of United States goods and services.
Denmark: Kingdom of Denmark	July 13, 1945	20.0	Do.
France: Republic of France	Sept. 11, 1945	550.0	Purchase of United States goods and services (Lend-Lease 3-c terms).
Netherlands:			
Kingdom of the Netherlands	do	50.0	Do.
Do	do	50.0	Purchase of United States goods and services.
Norway: Kingdom of Norway	July 13, 1945	50.0	Do.
Various European countries: Various European governments.	Oct. 8, 1945	100.0	Purchase of raw cotton.
Total, Europe		920.0	
Asia:			
Saudi Arabia: Kingdom of Saudi Arabia.	Apr. 12, 1945	5.0	Purchase of goods and services.
Turkey: Turkish State Airways (Westinghouse Electric International Co.).	Sept. 11, 1945	3.06	Purchase of airport equipment.
Total, Asia		8.06	
Various countries: Governments of various countries (International Standard Electric Corp.).	do	5.0	Purchase of communications equipment.
Special exporter-importer credits	do	1.0	Various.
Grand total		1,039.76	
Undisbursed commitments as of June 30, 1945 (adjusted for expirations and cancellations up to Dec. 31, 1945).		326.46	
Outstanding loans as of June 30, 1945 (adjusted for repayments between June 30, 1945, and Dec. 31, 1945).		193.43	
Total commitments as of Dec. 31, 1945.		1,559.65	

[1] Credits authorized before June 30, 1945, but not entered on the books of the bank as commitments until after that date.

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