

November 20, 1945.

To: Chairman Eccles

From: Mr. Knapp

In considering how best to "package" the British credit proposals in order to avoid the accusation that we are providing money to pay off old debts, I think it would be useful to take a glimpse into the future.

The scene is the hearings before a Senate committee. An unfriendly Senator is questioning a member of the Administration who has participated in negotiating the credit. As matters now stand, or as the British would like to have them stand, the interchange would be something like the following:

Senator: Now, let's see why you think the British need 4 billion dollars of new money from the U. S. According to the figures which you presented to us this morning, they will have an aggregate deficit of that amount in their current balance of payments during the transition years.

Witness: That is correct. (There follows a sharp interchange concerning the actual figures presented, but eventually the Senator is satisfied.)

Senator: All right, let's agree that they really need that much money to cover the current deficit. I had thought maybe the deficit had been overstated and that the British didn't really need so much money for current payments and would use some of the proceeds of our credit to bail out those old sterling obligations.

Witness: Oh, no, they couldn't do that. You see where it says in the credit agreement that no part of the credit is to be used to pay off prior obligations.

Senator: All right, now let's see. I have seen something somewhere about other countries helping out. I understand that Canada and some of the Sterling Area countries are going to help finance the British during the next few years.

Witness: That is correct. Those countries are going to help Britains to pay off the old sterling balances.

Senator: What's that? Do you mean to say that we are being asked to finance the British deficit with those countries while they have got money to lend Britain for other purposes?

Witness: That's correct.

Senator: Well, I don't think much of that, but let's have a closer look at these credits from other countries.

Witness: All right.

Senator: Now, take this Canadian loan. The Canadian Government is telling its public that their loan is being made to finance Canadian exports since they don't want to lose British export markets. What do you think of that?

Witness: Well, that isn't the way the British look at it. The Canadian Government has to "dress it up" to sell the idea to its public.

Senator: That's pretty queer. That seems to make the Canadian Government a liar. I hope our Government wouldn't try anything like that. Now, what about India?

Witness: Well, the Indian Government is also making a loan to pay off sterling balances.

Senator: Is that so? I thought they were going to finance Britain's military expenditures in India, and that the only reason they were willing to accept blocked sterling in payment was that these expenditures were being made in the course of winding up the war.

Witness: Well, that's the Indian Government's story, but the British look at it differently.

Senator: Hmm. This looks funnier every time I look at it. Now, what sort of currencies are the British getting out of these Canadian and Indian loans?

Witness: Well, they're getting Canadian dollars and rupees.

Senator: And what sort of currencies are the British going to use to pay off old sterling balances.

Witness: Well, they're using gold and U. S. dollars.

Senator: And you still sit there and tell me that Canada and India are financing the repayment of the old balances.

Witness: Yes, sir.

Senator: (exploding): This is a phony. You know perfectly well what is happening. Canada and India and these other sterling area

countries are simply financing part of the British deficit. Now you come along and ask us to put up money to cover the whole deficit, which leaves the British a lot of gravy which they can use to pay off their old obligations.

Witness: Well, you see, it's just a matter of bookkeeping.

Senator: As bookkeeping, this smells. My vote is to limit the amount of credit we give to the British to their total deficit, less the sums provided by other countries to cover this deficit.