BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 19, 1945

To Chairman Eccles

From Walter R. Gardner WRG

Subject: Safeguards against building up British investments abroad on 1-1/2 per cent money from U.S.

We do not want the British to borrow on a 50-year basis from us at less than 1-1/2 per cent interest in order to replenish reserves that have been drawn down in the process of making investments abroad that may yield 5 per cent or more. A certain amount of this may be necessary in practice; but if the British go ahead restoring and expanding their investments all over the world on the basis of 1-1/2 per cent money from the U.S., which would yield them handsome profits, it would be a bit of a scandal. Under the provision inserted last Saturday, which permits them to replenish their reserves from the American credit, the British could do this until the credit was exhausted.

I have, therefore, prepared a draft of an understanding which would give us the right to object if the British went too far in this direction. The draft is for insertion in the minutes following the interpretation of paragraph 2(ii) regarding liquidation of old sterling balances.

DRAFT STATEMENT FOR THE MINUTES REGARDING CAPITAL EXPORTS

Secretary Vinson also stated that the American group desired to record in the minutes an understanding with regard to the statement in paragraph 2(i) of the financial agreement that one purpose of the credit was to help the United Kingdom to maintain adequate gold and dollar reserves, as follows:

> "It is understood that gold and dollar reserves of the United Kingdom will be used only to a moderate extent to finance the export of British capital during the period in which the United Kingdom is drawing on the U.S. credit."

Lord Halifax, on behalf of the British group, stated that this understanding was correct.

November 19, 1945

DRAFT STATEMENT FOR THE MINUTES

Secretary Vinson stated that the American group desired to record in the minutes an interpretation of paragraph 2 of the financial agreement, as follows:

"Paragraph 2(ii) of the financial agreement should not be interpreted to permit the United Kingdom to discharge obligations to third countries outstanding on the contract date of the U. S. credit with:

(a) the proceeds from United Kingdom exports of goods and services during the period in which the United Kingdom is drawing on the U. S. credit; or

(b) the proceeds from any credit extended by a third country for the purpose of financing the United Kingdom's purchase of goods or services in that country, or the United Kingdom's adverse balance of current payments with that country, during the period in which the United Kingdom is drawing on the U. S. credit.

It is understood that the projected credit arrangements with Canada, and those covering the United Kingdom's overseas military expenditures, will be of the kind described in (b) above.

Therefore during the period in which the United Kingdom is drawing on the U. S. credit, payments by the U.K. on obligations to third countries outstanding on the date of the U.S. credit, to the extent that they are made in gold, U. S. dollars, or in sterling freely convertible into gold or U. S. dollars, must be limited in amount to the gold and U. S. dollar resources held by the United Kingdom on the date of the credit plus any additional freely available resources of this character which the United Kingdom may subsequently borrow from third countries.

It is recognized, however, that to the extent that such payments result in a decline in the United Kingdom's gold and U. S. dollar reserves, it would be consistent with the purpose of the U. S. credit, as stated in paragraph 2(i) of the agreement relating thereto, for the United Kingdom to replenish its reserves by draft against the credit."

Lord Halifax, on behalf of the British group, stated that this interpretation was entirely agreed.

11-19-45