BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 28, 1945.

To Chairman Eccles

Subject:

From Mr. Knapp

Attached is a letter dated December 27 to you from Mr. Sproul developing the argument for using the direct Treasury method rather than the indirect Export-Import Bank method for handling British credit. Also attached is a copy of my acknowledgment.

Mr. Sproul's special points spell out in some detail the third paragraph of your letter to Secretary Vinson in which you stated that "The Export-Import Bank would be acting completely out of character in handling the British credit" because "it operates under Congressional mandates to concentrate on financing the foreign trade of the United States and to operate on a commercial basis".

Att.

FEDERAL RESERVE BANK

OF NEW YORK 7

December 27, 1945.

Honorable M. S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

I was glad to have your letter of December 20th enclosing a copy of a letter you had written to the Secretary of the Treasury, putting yourself on record with the National Advisory Council concerning the implementing of the British credit. I have thought about this a good deal since my earlier letter to you, and I am convinced that the way we propose that it be handled is much the better way.

You are right, I think, in emphasizing the unique character of the British credit as the main reason for not channeling it through the Export-Import Bank, and in omitting reference to the close relationships between this bank and the Treasury. As far as the latter point is concerned, arrangements could be made so that payments, under the credit, would come to the Bank of England account with us, whether from the Export-Import Bank or the Treasury, with almost equal facility. Of course neither we, nor, I believe, the Bank of England and the British Treasury, would want to see an account opened directly with the Export-Import Bank by the Bank of England, and I assume that this would not be contemplated no matter what the arrangement.

Some special points to bolster the general argument that the direct Treasury method rather than the indirect Export-Import Bank method should be used, are as follows:

1. Under Section 2(a) of the Export-Import Bank Act of 1945, the Bank may make loans only "for the purpose of aiding the financing and facilitating of United States exports and imports ....." This is the principal, but not the sole purpose of the British loan. Paragraph 3 of the financial agreement specifically provides that the credit may be used, not only to facilitate purchases by the United Kingdom of goods and services in the United States, but also "to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars, and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements." Thus, a part, and possibly a substantial part, of the British loan will be expended in third countries and, furthermore, may not even indirectly facilitate United States exports (if the dollars acquired by third countries are simply held idle). That part of the loan will be expended in third countries is further clear from the

commitments imposed upon Britain within one year of the effective date of the agreement to permit, with certain exceptions, multilateral convertibility of sterling which foreign countries will be currently acquiring.

2. Apart from the purely legal aspects of the matter (which perhaps could be generously interpreted to cover the British loan), extension of the loan would be in direct contradiction to the established policy of the Bank. Export-Import Bank loan contracts have generally included "tying clauses" requiring that the proceeds of the loans be spent only in the United States. In its General Policy Statement of September 11, 1945, the Bank reaffirmed its intention to confine its loans to the financing of United States exports and imports only. The pertinent paragraph of the policy statement reads as follows:

> "As a general rule, the Bank extends credit only to finance purchases of materials and equipment produced or manufactured in the United States and the technical services of American firms and individuals as distinguished from outlays for materials and labor in the borrowing country or purchases in third countries."

3. In recent months, the Export-Import Bank has made three principal kinds of loans: (1) 30 year loans at an interest rate of 2-3/8 per cent which replaced financial arrangements concluded with certain countries under Section 3(c) of the Lend-Lease Act; (2) rehabilitation loans for the purchase of United States goods at an average rate of 3 per cent to be amortized over 20 years; and (3) development loans to Latin-American countries for periods of 5 to 20 years at a rate of 4 per cent. These loans come somewhere near having the quality and attractiveness which make participation of commercial banks in Export-Import Bank credits a possibility, which latter is one of the aims of policy of the bank. The British credit does not (and should not) have these attributes.

I am sure the technique we suggest is the one to use, and I hope the enabling legislation will require it, or permit it so that the Treasury may use it.

Yours sincerely,

Allan Sproul,
President.

December 28, 1945.

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Sproul:

In the absence of Chairman Eccles, who is out of town, I should like to acknowledge your letter of December 27 addressed to him on the subject of the procedure for handling the British credit.

We still have no official word concerning progress on the enabling legislation for this credit but it is understood that the matter rests at the moment with Secretary Vinson. I have learned informally, however, that serious consideration is being given, at least in the State Department, to passing the British credit through the Export-Import Bank primarily because this course appears to have tactical advantages in the approach to Congress. For one thing, it would assure that the matter would be referred to the Banking and Currency Committees, which are considered to be relatively sympathetic. Furthermore, it is hoped that Congress will authorize raising the required funds as a public debt transaction rather than through the ordinary appropriation procedures, and it is felt that it would be more difficult to obtain such authorization in a completely new act of Congress than in a "simple" amendment to the present Export-Import legislation in which the "public debt transaction" technique is already embodied.

The special points stated in your letter certainly demonstrate that the Export-Import Bank would be acting completely out of character in handling the British credit, although, of course, Congress could implicitly or explicitly alter the character of the Bank's operations for the purposes of the British case. Indeed, I believe that the legislative history of the Export-Import Bank acts makes it quite clear that the Bank is at present bound by Congressional mandate, and not only by its own policy decisions, to make only "tied" loans and to make them on terms approximating a commercial basis. It seems equally clear that neither of these criteria could be stretched to cover the British loan.

I think you may rest assured that even if the British loan is passed through the Export-Import Bank payments under the credit will be made to your Bank for British account. The Export-Import Bank has never opened accounts for its customers and I feel sure has no intention of expanding its operations in that direction.

Very truly yours,

J. Burke Knapp,
Special Assistant to the Chairman.

JBK/vl