

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 28, 1946.

To Chairman Eccles

Subject: _____

From Mr. Knapp



Attached is a letter addressed to you by Mr. Knight G. Aulsbrook together with a proposed draft of a reply.

The paper which Mr. Aulsbrook attaches and which he plans to submit to the Congressional Committees considering the British loan, is a very poorly written job. However, the essence of his so-called POFI plan (pre-payments of future imports) seems to be that when the United States makes foreign loans (and in particular the British loan) we should assure service on the loan by entering into long-term contracts for the delivery of goods from our debtors. For example, he would want the British loan secured by future deliveries of Malayan tin and rubber, etc.

There is a certain superficial appeal about such schemes although in practice they would run quite contrary to our announced international economic policies. I have attempted to bring this out in the draft reply.

Attachments 2

January 29, 1946.

Mr. Knight G. Aulsbrook,
Counsellor at Law,
70 Duane Street,
New York 7, New York.

Dear Mr. Aulsbrook:

Many thanks for your letter of December 15 enclosing your interesting paper entitled "Buy a Share in the Prosperity of the Nations With Whom We Trade". Your general approach to our foreign credit problems seems to be very constructive, although I was a little disappointed that you did not develop further your conception that this Government instead of lending abroad ought to develop equity investments in foreign countries.

As for the POFI plan, which I understand you propose only as a substitute pending the development of procedures and instrumentalities for equity financing, the essence of the proposal seems to be that we should enter into long-term contracts for the delivery of goods from our debtors and earmark such deliveries to cover service on our loans. This proposal seems to me to be based on solid ground in so far as it recognizes that this country must accept imports if it desires to collect on its foreign loans. However, it also seems to me to be an excessively rigid application of this principle and to suffer great disadvantage by comparison with a more general adoption of the principle in our international balance of payments policies.

As you know, this Government is striving to develop a postwar world trading system based on freely multilateral trade and freely convertible currencies. Bilateral commodity transactions of the kind which you envisage do not fit very well into this general picture and I think it would be unfortunate for us to give such an example to other countries who might be inclined to carry it much further in the direction of barter agreements and exclusive trade arrangements.

As you are aware, the general objection to such practices is not only that they involve excessive governmental participation in foreign trade, but also that they distort the normal economic flow of goods, breed

Mr. Knight G. Aulsbrook

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discrimination and counter-discrimination, and lead almost inevitably to a state of undeclared economic war.

It seems to me far preferable to work toward a world of free currency and trading relationships in which our debtors, by selling their goods in free competition in any market, can earn foreign exchange to service our loans. We can make such a world possible if we pursue an international economic policy consistent with our creditor position, i.e. if we accept the fact that our balance of trade in goods and services with the world as a whole must leave a margin of dollars available to meet net payments to this country on its investments abroad. As you know, we are very prone in the United States to forget the rationale of international trade and to seek prosperity by exporting as much and importing as little as possible. A great public service can be rendered to this country by educating our public in the fallacy of this doctrine.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

JHK:mla

C O P Y

KNIGHT G. AULSBROOK
Counsellor at Law
70 Duane Street, New York 7, N.Y.

December 15, 1945.

Honorable Marriner S. Eccles,
The Shoreham Hotel,
Washington, D. C.

Dear Mr. Eccles:

It is many years since I enjoyed our chats together when you visited our then bachelor lawyers headquarters in Washington and although I have since left government service to return to my private practice, I am still "exposed" in such practice to some of the continuing international monetary problems.

Recently I wrote a little paper on the projected American loan to Britain after talks with some of my Congressional friends and intended for a submission to a committee of the Congress when it begins consideration of the loan after the holidays. I am enclosing a copy of it with the thought that you might find it interesting as well as the enclosed exchange of views on it which I have had with Mr. Robert G. Emerson, operating vice-president of the First National Bank of Boston.

Although my plan is my no means a "cure-all", I would be happy to have any informal comments of your own as to its merits and practicality. My particular thought is the use of my POFI Plan as a remedy in the event of a default in principal repayments.

With all good wishes,

Very sincerely yours,

(Signed) Knight G. Aulsbrook

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*Original letter
& enclosures in
Hon. Files -*