

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 12, 1946.

To Chairman Eccles

Subject: _____

From Mr. Knapp

Attached is a marked copy of the text of the speech which Secretary Byrnes gave last night before the Foreign Policy Association in New York.

I think the points which will interest you most are Secretary Byrnes' comments on the inflationary effect of the loan and on the prospects for repayment.

(1) On the inflationary effects, he points out that the loan will be drawn upon only over a period of years and that it will not be spent on scarce manufactured consumers' goods. He says that the loan will stimulate exports of our agricultural surpluses to Britain and exports of capital goods to other suppliers of the British market, especially Latin America. He concludes that: "The pressure for inflation in this country is great. I would be the last to minimize the danger. But * * * * * restricting the ability of foreign purchasers to buy the things we have in abundance only adds an additional handicap to our economy."

(2) On the repayment question, Secretary Byrnes argues that the circumstances this time are "entirely different" from those applying to the World War I debts. He points out that this time the loan is being made for constructive purposes rather than to finance Britain's war effort. He mostly emphasises, however, that Britain did pay the installments due on the old war debts until the world depression and the increase in American tariffs. He concludes that this time "we are not going to raise tariffs" and that we are taking steps to avoid another world depression. In these circumstances, he concludes "Britain should have little difficulty in meeting the agreed payments".

Attachment

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Byrnes, James F. "Text of Byrnes Speech Defending the Loan Agreement with Britain." *New York Times*, February 12, 1946.