



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 14, 1947.

AIR MAIL

Dear Mr. Chairman:

Just in case I may have occasion to talk to you on the subject, I am sending you herewith a copy of the Anglo-American Financial Agreement, the terms of which will come up for renewed discussion with the British delegation next week.

I am also enclosing a copy of an informal and personal memorandum which I have prepared in anticipation of these discussions. Its subject matter is highly technical, but its main conclusions are as follows (you might bear in mind that Congressional consent is necessary for any alteration in the terms of Section 9 of the Agreement, requiring--with some exceptions--that the British abstain from discrimination against U.S. exports in the administration of their quantitative import controls; on the other hand, the Administration has power to grant a period of grace to the British in their obligation to abandon exchange controls restricting the free transferability and convertibility of sterling):

1. Discrimination against U.S. exports is not likely to help the British much unless they also are given freedom to block sterling balances arising out of current transactions.
2. Even then, discrimination may not help them much since foreign countries may be unwilling to supply the British market against payment in blocked balances.

3. There is a possible interpretation of the Agreement under which the British could escape the non-discriminatory provisions of Section 9 by introducing special discriminatory exchange controls. However, the application of these controls would require the consent of the Administration, and before granting any British request on this matter we would have to consider very seriously the extent to which this would amount to circumvention of the intent of Congress.

Sincerely yours,



J. Burke Knapp,  
Assistant Director,  
Division of Research and Statistics.

Enclosures 2.

The Honorable M. S. Eccles,  
c/o Hotel Ben Lomond,  
Ogden, Utah.