

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 8, 1947

To Chairman Eccles

From Mr. Knapp

Subject: Chancellor Dalton's letter to Secretary Snyder regarding postponement of some British obligations.

As you know, the National Advisory Council meeting has been postponed until Thursday morning at 10 o'clock. The Staff Committee is meeting this afternoon to consider a long (8 page) letter received by Secretary Snyder from Chancellor Dalton yesterday, in which the British request postponement of some of the obligations which they are supposed to undertake as of July 15.

This letter raises some complicated issues which I am still in the process of studying. In general, however, it appears that no major problems are involved. For example, as forecast in my memorandum of July 1, the British are requesting an extension of time for making Chinese sterling convertible because of the insuperable technical problems created by chaotic conditions in China. In this instance it seems to me that we would be thoroughly justified in granting a postponement. They have a number of other requests for extension of time in the case of individual countries, which will have to be examined on their merits case by case. I presume that the Staff Committee will have a report on this subject ready for the Council by Thursday morning.

Secret & Draft

My dear Chancellor:

Reference is made to your letter of reporting the progress you have made in dealing with the financial and trade problems which relate to the Anglo-American Financial Agreement.

I am keenly aware of the difficulties you face in solving these problems during this critical period. It is gratifying to note, therefore, that you will be able to assure that sterling accruing to some countries from current transactions will be available for payments for current transactions in any currency area. As to those countries which cannot reasonably be included within the exceptional case provisions of Section 8(ii) of the Financial Agreement, I agree that consultation under Section 12 is appropriate.

I am particularly pleased to note that thus far you have been able to comply with Section 9 of the Financial Agreement, Since however, you foresee an area of your future import program with respect to which some question of discrimination may arise, I agree that this is an appropriate matter for consultation under Section 12 of the Financial Agreement.

Your statement of the ultimate objective of your Government to implement fully the principles of multilateral trade and exchange and even in this emergency period to adhere to them as closely as possible is of primary importance. So long as our two Governments keep these objectives in mind I am sure that we will be able to overcome the temporary obstacles interfering with their immediate attainment.

I confirm your understanding that as contemplated by our August 20 exchange of letters and discussion, your Government is free to resume drawings under the line of credit.

It is my view that consultations under Section 12 of the Financial Agreement should, if possible, commence in the first week of November. Please inform me whether this time is convenient for your Government.

Sincerely yours,

Right Honorable Hugh Dalton
Chancellor of the Exchequer
Treasury Chambers
London, England

PROPOSED LETTER FROM CHANCELLOR DALTON TO SECRETARY SNYDER

My dear Mr. Secretary:

I refer to our discussions and exchange of letters of August 20 concerning the Anglo-American Financial Agreement. On that date H.M. Government took action of an emergency and temporary nature to halt the excessive drain upon their dollar resources. It was agreed between our two governments that H.M. Government would endeavor to conclude new financial arrangements within the framework of the Anglo-American Financial Agreement in order to conserve dollar resources.

Accordingly, H.M. Government have given serious consideration to the problem and have discussed both trade and financial problems with the representatives of various other governments, seeking a means of reaching satisfactory arrangements consistent with our obligations under the Financial Agreement. We will be able to assure that the sterling accruing to some countries from current transactions will be available for payments for current transactions in any currency area. With other countries, however, we have not been able to make such arrangements, nor do I anticipate that we will be able to make such satisfactory arrangements with many of them in the near future.

As contemplated in the August discussions, our representatives have been in continuous consultation concerning the application of Section 8(ii) of the Financial Agreement in certain exceptional cases. Since the number of countries with whom we may be unable to complete satisfactory arrangements is larger than we had anticipated, it is our conclusion that it might be a misconstruction of the meaning of Section 8(ii) to include this larger number of countries within the exceptional case provisions of that section. Accordingly, I feel that the better course for our government to take is to deal with this problem in consultation with your government under Section 12 of the Financial Agreement.

We have also been giving consideration to the U.K.'s import program and its relation to Section 9 of the Financial Agreement. Thus far the provisions of Section 9 have not constituted a hindrance to the carrying out of the import program essential to the welfare of the British people and to the reconstruction and recovery of the U.K. However, we can foresee an area of this program with respect to which questions of discrimination may arise. Accordingly, we would also like to include Section 9 as one of the matters to be discussed with your government.

As you are aware, we have already been compelled to borrow dollars from the International Monetary Fund and to draw upon the gold which constitutes the basic reserves not only of our country but also of the sterling area. You are also aware that the extent to which we can continue to utilize these sources of funds is clearly limited. Thus, in consulting with your government, it will be our intention to discuss fully the relationship of Sections 7 8(ii) and 9 to H.M. Government's essential program of conserving the meager dollar resources which remain available to them. However, it will be our primary purpose to reach agreement with you on the modifications of those sections in order to enhance the ultimate attainment of the basic objectives of the Agreement. Although the depletion of our dollar resources makes it difficult, if not impossible, to adhere fully to the principles of multilateral trade and exchange under present circumstances, I wish to emphasize that it remains the strong desire of H.M. Government to adhere as closely as possible to those principles at all times. It is, moreover, the intention of H.M. Government to implement these principles fully at the earliest possible time.

We believe that as contemplated in our August 20 exchange of letters and discussions, it is now appropriate for H.M. Government to resume drawings under the line of credit. I would appreciate your confirmation that the credit is presently available and your views as to the time which would be convenient for your government to begin consultations under Section 12.

Very truly yours,

APPENDIX I

The International Financial Situation of the United Kingdom

The international financial situation facing the United Kingdom in the next nine months may be summarized as follows:

A. Resources Available for Short-Run Financing

1. On September 30, 1947, the gold and official U. S. dollar balances of the United Kingdom were \$2,450.
2. There remained, in addition to the \$400 million of the U.S. line of credit, approximately \$475 million of the Canadian credit. Drawings on the Canadian credit, however, will probably be restricted to \$15 or \$20 million a month because of the Canadian financial position.
3. The United Kingdom is entitled to draw approximately \$265 million (in addition to the September drawing) from the IMF in monthly installments of about \$65 million.
4. The United Kingdom is negotiating with South Africa for some form of assistance. A credit of \$200 to \$300 million has been rumored. (Assistance from South Africa may be in the form of a tied loan, and since South Africa's export potential is not large, there is a limit to the rapidity with which the U. K. could benefit from such a credit.)
5. It is not likely that the International Bank could extend material assistance to the United Kingdom in the next few months.
6. Britain's long-term investments in the U.S., estimated at some \$2 billion, could not be liquidated so as to be of material assistance in the next few months, and such liquidation, furthermore, might sacrifice long-run stability.

B. Dollar Requirements of the United Kingdom

1. The NAC Working Group on the Anglo-American Financial Agreement has estimated Britain's overall balance of payments deficit for the next three quarters as follows:

(millions of Dollars)

Fourth Quarter 1947	450
First Quarter 1948	250
Second Quarter 1948	75

2. The gold and dollar requirements of the United Kingdom for the next 9 months have been estimated by the U.K. Treasury to be \$1,550 million. The NAC Working Group estimate for the next six months is \$800 million to \$1,000 million. (The Working Group did not estimate dollar requirements for the second quarter of 1948.)

C. Financing of the Dollar Requirements.

On the assumption that (a) the \$400 million will be available, (b) that the U.K. will draw upon the IMF to the extent of 25 percent of its quota, and (c) that no assistance will be obtained from South Africa, the drain on Britain's reserves will depend upon the rate of use of the Canadian credit and the size of Britain's dollar requirements. British estimates indicate that they contemplate drawing on the Canadian credit at a rate of roughly \$15 to \$200 million a month.

Under these assumptions:

- (1) Britain's gold reserves would be reduced to about \$2.3 billion by April 1, 1948, if dollar requirements do not exceed \$1 billion.
- (2) Britain's gold reserves would be reduced to about \$2 billion by April 1, 1948 if dollar requirements during that period amount to \$1.3 billion.
- (3) Britain's gold reserves would be reduced to \$1.7 billion by June 30, 1948, if dollar requirements over the next 9 months amount to \$1,550 million -- which is the most recent British estimate.