

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date August 29, 1947

To Files

Subject: \_\_\_\_\_

From Mr. Knapp

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The following notes are to record the results of the meetings between the National Advisory Council and the British Delegation, headed by Sir Wilfrid Eady, during the week of August 18. There were four meetings:

- (1) An opening joint session on August 18 at which Sir Wilfrid Eady gave a general statement of the British situation (see memorandum attached to my letter to the Chairman dated August 19);
- (2) A special meeting of the National Advisory Council in Secretary Snyder's office Tuesday night (August 19);
- (3) A second joint session with the British on Thursday, August 21, at which Sir Wilfrid Eady gave a further statement concerning the British coal problem, the outlook for the British balance of payments in the coming year, etc.;
- (4) A final joint session with the British on Friday, August 22, at which the subject of British commercial policy was discussed.

The only concrete result of the week's meetings and the only matter upon which the National Advisory Council was required to make a policy decision was the British Government's order dated August 20 restricting the convertibility of sterling and the exchange of letters between the two Governments on this subject which was worked out the night before. The course of the negotiations on this point is given below, together with some remarks concerning the discussion which took place at the last joint session on the subject of discrimination and British import controls.

Negotiations concerning restrictions on convertibility

It appears that on Saturday, August 16, the decision was taken by the leading members of the British Government to issue an order restricting the convertibility of sterling into dollars. This action was confirmed at a full meeting of the British Cabinet held on Sunday, August 17, and it was planned to issue the order on the following day, after notice to the United States Government, but without consultation. Sir Wilfrid Eady communicated this information to Secretary Snyder on Monday morning, explaining that although this action appeared to be in violation of the Anglo-American Financial Agreement, the recent "run" on sterling had left the British

Government no other choice. Secretary Snyder asked that the action be postponed for a day or so in the hope that some way could be found to work out the problem within the framework of the Anglo-American Financial Agreement, and at the last minute this proposal was accepted by London.

During Monday afternoon and Tuesday, a special negotiating group representing the State and Treasury Departments (Southard, Overby, Thorp, and Ness, plus some lawyers) were in constant session with the top members of the British Delegation seeking an answer to this problem. The other agencies in the National Advisory Council were not informed of the special negotiations until Tuesday evening, when an Executive Session of the National Advisory Council was called in Secretary Snyder's office at 9 p.m. This session was attended by Governor Szymczak and myself.

At this point substantial agreement had been reached by the special negotiators upon an exchange of letters between Secretary Snyder and Chancellor Dalton, except for one major point upon which the National Advisory Council was asked to decide. The question was whether this exchange of letters should include an agreement on the part of the British not to make further use of the United States credit (except for drawings already "notified" but not yet disbursed) during the weeks immediately following the suspension of convertibility.

This problem arose because of doubt as to whether on a strict legal interpretation the proposed British action would conform to the letter of the Anglo-American Financial Agreement. It is possible to justify such action on the general theory that a "breathing spell" of, say, two months is necessary to give the British time to organize effective controls over foreign sterling transactions. But the Administration has the specific power to grant exemptions under Sections 7 and 8 of the Financial Agreement only "in exceptional cases". Perhaps, by the end of the "breathing spell", convertibility of sterling can be restored for all but a few countries, but in the meanwhile, until the situation can be "regularized" it would obviously be safer not to disburse further funds on the credit.

Further complication, however, arose from the fact that if the United States were to take action freezing the remaining portion of the credit, it would appear to be an admission that the British had violated the Financial Agreement. It was therefore thought preferable for the initiative on this matter to come from the British side. This, however, the British at first refused to do on the ground that it made no sense for them voluntarily to abstain from drawing on the credit.

Some members of the American group felt that we should give way and let the rest of the credit be drawn; they were afraid that otherwise the British might refuse to proceed with the exchange of letters and take unilateral action repudiating the Financial Agreement. Others of us, however, felt that the British would back down if confronted with a firm American position, and Secretary Snyder was extremely concerned about assuming responsibility for further disbursement of funds after the British had taken their proposed action.

In the end, it was decided to make a final offer to the British in these terms: Either sign the exchange of letters and offer not to draw upon the credit except for amounts already notified; or go ahead and act unilaterally, in which case no further disbursements can be made, even of amounts already notified.

When this conclusion was communicated to the British delegation, they appeared already to be weakening although they stated that they could give no assurance of London's reaction. Next morning, however, word was received that London had accepted the proposed formula for the exchange of letters, which was made public at 4:15 that afternoon.

#### Discussions concerning discrimination in British import controls

This subject received exhaustive discussion at the technical level during the week, and at the final meeting Sir Wilfrid Eady and Mr. Paul Nitze of the Department of State reported the results. No action by the National Advisory Council was called for at that time.

In general, this matter was left as follows:

(1) The British received assurance that the United States Government would place a liberal interpretation upon the terms of Section 9 of the Anglo-American Financial Agreement, which requires the British with certain stated exceptions to grant non-discriminatory treatment to United States products in the administration of their quantitative import controls. It was made clear to them, however, that any amendment to the text of Section 9 would require the consent of Congress.

(2) The British expressed their appreciation of the broad view taken by the United States Government of the present Section 9, but made it clear that even with a liberal interpretation this Section would almost certainly not give them enough latitude to deal with their

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critical situation. However, in response to a specific question from Secretary Snyder, Sir Wilfrid Eady replied that he had no request to make at the present time for amendment of Section 9. He indicated the British desire to study the subject more fully before deciding just what amendment would be necessary, and before deciding whether they could afford to wait for Congressional action. In other words, the British did not exclude the possibility of their being forced to take unilateral action in this matter.