Chairman Eccles

October 31, 1945.

Files | National Advisory Council

Mr. Knapp | Meeting of October 30, 1945.

The agenda for this meeting consisted of only one item, namely consideration of the financing of surplus property sales abroad. The problem was raised in terms of a specific case, namely arrangements with Italy, but it was considered that this arrangement would set a precedent and Secretary Vinson deemed it desirable to obtain a judgment on the matter from the National Advisory Council.

The Treasury Department had prepared a proposal (N.A.C. paper no. 23) which suggested that Italy pay for surplus property by depositing lire funds, to be amortized in dollars at a fixed exchange rate over a period of ten years. The question of whether any interest should accumulate on the lire funds was left open for consideration by the Council.

It was agreed almost from the outset that it would be necessary to charge interest on a credit extended in this manner, especially since it was recognized that the Italian arrangement would set up a pattern for negotiations with other countries. Once this was decided, Chairman Eccles and Mr. Taylor had no difficulty in arguing that there was no merit in the local currency feature and that it was much more straightforward simply to sell the goods against deferred payment in dollars.

It was thereupon decided, upon the motion of Mr. Clayton, that the credits be extended on 3c terms (i.e. 30-year life with interest at 2-3/8 per cent), that payments commence only after 5 years although interest would accumulate from the outset, and that the United States have the right at any time to demand additional amortization payable in local currency (at the current exchange rate) to the extent that we might require such currency for government expenditures in the country concerned. This latter provision was introduced to secure for the dollar credit plan one advantage inherent in the local currency plan. In the special case of Italy, however, it was agreed after discussion that we should not press the Italians to supply us lire under the surplus property arrangements for use in the pay of our troops in Italy. We are currently buying for dollars the lire required to pay our troops but the loss of this dollar revenue would cripple Italy's import program.

Certain background information developed in the course of the meeting which may be worth recording. It was pointed out that some sales had already been made for local currency which bore no exchange guarantee, pursuant to directives of the Surplus Property Administrator, but that in accordance with the terms of a letter from Mr. Snyder the Treasury Department had undertaken to set certain limits on the amount of local currency which could be accumulated in each country under these interim arrangements. The principle was that only such sums should be accumulated as could be disbursed on government expenditures in the country concerned during the next year or so. In Italy, for example, the acquisition of some 15 million dollars worth of lire had been authorized and it was believed that most or all of this sum had already been acquired. There was some talk of making the dollar credit arrangements retroactive to cover such transactions, but this idea was dropped.

Mr. Clayton stated definitely that sales of surplus property on credit terms were fully authorized by the surplus property legislation. He also remarked that Mr. Symington was planning to obtain an amendment to the legislation which would divest him of—and vest fully in the State Department—all responsibility in connection with the sale of surplus property abroad.

JBK:mla