

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 21, 1946.

To Chairman Eccles

Subject: _____

From Mr. Knapp

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Attached is the agenda for tomorrow's meeting of the National Advisory Council together with certain of the relevant documents.

1. Proposed Export-Import Bank loan to Poland. Poland has made known its desire to obtain large reconstruction loans from the United States but there is no disposition anywhere in the Government to consider such a program until conditions in Poland and our political relations with that country become clarified.

The State Department, however, is very anxious on political grounds to put through a small Export-Import Bank loan to Poland as a token of our goodwill. Even a small loan would be offered, however, only if Poland was prepared to give certain assurances concerning commercial policy and the treatment of American interests in Poland (in particular fair compensation to American enterprises whose properties in Poland have recently been taken over by the State under a general program of nationalizing industry there).

At the same time it happens that there is an excellent economic justification for at least a small loan to Poland at the present time. There is a crying need throughout Europe for Polish coal (especially because of the disruption in the Ruhr which is normally Europe's prime source of coal) and Poland's capacity to export coal is limited at present principally by the lack of transportation and port equipment. Some of these needs may be met from U.S. surplus property in Europe and as you know, Tom McCabe is actively negotiating with the Poles on this matter. In addition, however, there is no doubt but what the Poles could put to very good use new transportation and port equipment exported from the United States.

At present Poland has virtually no gold or foreign exchange resources available for purchases in this country. The State Department is therefore recommending on the basis of the political and economic factors described above an Export-Import Bank loan to Poland of 40 million dollars for the purchase of "urgently needed capital goods such as coal cars and locomotives". The staff committee supports this proposal.

Item 1(c) on the agenda should really be a separate subject since it involves a general question of principle which only happens to come up in connection with the Polish loan.

In the staff committee discussion of the Polish loan last Thursday, the Export-Import Bank people took the position that the staff committee

should not take into consideration such factors as Poland's need for a loan, Poland's ability to repay alternative sources for the loan, or, indeed, even the amount of the loan. They insisted that these were not matters of general policy and that the National Advisory Council should leave all of these to determination by the Export-Import Bank.

This brought us back to the central issue of the relations between the National Advisory Council and the Export-Import Bank. We went ahead and did business at the staff committee meeting, but the Export-Import Bank people participated only with the general reservation that we were getting far outside our proper field of reference.

In Document No. 52, therefore, the Secretary of the Council is again throwing up to the Council the question of what jurisdiction it has in the field of foreign loans.

2. Statement of foreign lending program of the U. S. Government. This is the document which Walter Gardner and I desire to talk to you about and I shall not attempt to deal with it here.

3. Credits to U.S.S.R. re surplus property disposal. As you will recall, the National Advisory Council has authorized the Foreign Liquidation Commissioner to sell surplus property on 3c terms (2-3/8 per cent for 30 years with amortization commencing within two or three years). In the case of the Russians, however, there is an old commitment to give them slightly better terms on any 3c loans---specifically to give them an initial 8-year period of grace on amortization payments rather than only 2 or 3 years. The State Department, with the support of the staff committee, recommends that the National Advisory Council approve this exception for the Russian case.

4. Report of technical committee. The technical committee on Bretton Woods organization, headed by Harry White and on which Walter Gardner, Alice Bourneuf, and Leonard Townsend have been active, is submitting to the Council preliminary drafts of the agenda for the first meeting of the Board of Governors of the Bretton Woods Institutions and of the by-laws for the Fund and for the Bank. These papers are pretty routine in nature and I do not think you need to consider them in detail at the present time. The U.S. will have to take a position on some of the items listed in the agenda (such as the terms on which countries which missed the December 31 deadline (Russia, Australia, New Zealand, etc.) should now be allowed to join the Fund and Bank). However, such matters are not up for decision now. Also, the by-laws, when adopted, will fix the site of the Bank and the Fund, but in the present draft of the by-laws this important question is avoided by leaving the space blank. In short, I doubt if these documents will receive (or require) much discussion in the Council.

Attachments