BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 10, 1946.

To Chairman Eccles

Subject: Discussion of items on agenda for today's N.A.C. meeting.

From Mr. Knapp

I should like to give you the following comments on items scheduled for discussion at today's National Advisory Council meeting.

1. Recent UK-Argentine Financial Agreement. As I have already informed you, the recent UK-Argentine agreement contains a clause concerning the treatment of Argentine sterling balances which is a clear violation of one of the most important clauses in the US-UK loan agreement. In the latter agreement, the British committed themselves not to give artificial stimulation to their exports by prescribing that accumulated sterling balances could be spent only in the sterling area. In effect the agreement provides that accumulated balances must be either entirely blocked for current transactions or freely available for expenditure in any currency area. The UK-Argentine agreement violates this understanding by providing that Argentina may draw up to 5 million pounds a year on its accumulated sterling balances plus any additional amount required to meet Argentina's unfavorable balance of payments with the sterling area. In the case of Argentina, it is most unlikely that this provision would ever come into force, but it constitutes a very dangerous precedent. Since this provision is so nearly meaningless to Argentina, the British should have no great difficulty in securing its elimination.

It is suggested that the Council take action "approving the communication by the Secretary of the Treasury to the Chancellor of the Exchequer of the view that the terms of the UK-Argentine agreement constitute a violation of the US-UK Financial Agreement". Attached is the full text of the letter from Secretary Snyder to Chancellor Dalton as drafted by the Staff Committee.

2. Export-Import Bank Financing of Sales of Domestic Surplus to Foreign Governments. As I have reported to you, the National Advisory Council and the War Assets Administration have arrived at more or less of a stalemate on the subject of W.A.A. credits to foreign governments. You will recall that the Council felt obliged to approve rather stringent terms on such credits in order to avoid discrimination against domestic purchasers of surplus property. It now appears, however, that the W.A.A. is unwilling to give credits even on these terms unless it receives some stronger statement from the Council concerning the credit-worthiness of foreign governments than the Council has hitherto been willing to give. I think the Council has perhaps been unduly cautious in what it has been willing to state to the W.A.A., but it now appears that this whole issue can be sidestepped by permitting the Export-Import Bank to finance on its usual credit terms purchases of surplus property in the United States.

The only reason that Export-Import Bank financing was not used from the outset was that the Council desired to conserve Eximbank funds for other purposes. It now appears, in view of the early commencement of operations by the International Bank and in view of the program for U.S. grants in aid during 1947 to Italy, Greece, and Austria, that the resources of the Export-Import Bank will be sufficient to cover a moderate program of surplus property credits.

The Staff Committee therefore recommends that the Council approve credits for this purpose by the Export-Import Bank up to an amount of 50 million dollars whether under existing or under new commitments.

3. U.S. Stabilization Fund Credit to Costa Rica. The Staff Committee recommends that the Council approve consideration by the Treasury of a 5 million dollar 6-month Stabilization Fund credit to Costa Rica. Costa Rica is in serious exchange difficulties because of a heavy seasonal deficit in its foreign trade, but expects a bumper coffee crop within a few months. This credit is suggested only to meet this seasonal need during the period prior to the effective operation of the International Monetary Fund.

Attachment
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