

Mr. Thurston

Date December 5, 1946.

To Mr. Thomas

From Mr. Knapp

MESSAGE:

Attached are some hastily prepared notes on material which the Chairman might cover in his remarks on Friday concerning the international situation. Mr. Thurston told me that it was not necessary to prepare a finished presentation of this subject.

Attachment

Date December 4, 1946.

To Mr. Thurston

From Mr. Knapp

MESSAGE:

Attached is a rough outline
of remarks which the Chairman might
make at the meeting on Friday.

Attachment

D R A F T

1. Balance of Payments for the Year Following V-J Day.

Figures have recently been compiled covering the international transactions of the United States in the year following V-J day. They indicate that the total amount of goods and services supplied to foreign countries by the U.S. during that period was about 14 billion dollars, whereas we received only about 6.7 billion dollars of foreign goods and services. The net balance of 7.3 billion dollars in favor of the United States was covered as follows:

3.2 billion dollars by donations (UNRRA, lend-lease, supplies~~d~~ to occupied areas, and private donations)

2.7 billion dollars by transfers on U. S. Government credits (1 billion disbursed in cash on Export-Import Bank loans and British credit; 1.1 billion of lend-lease goods shipped after V-J day on long-term credit, and 0.6 billion of surplus property disposed of to foreign governments on credit terms)

1 billion dollars from the liquidation of foreign gold and dollar resources, including gold derived from new foreign production during the year.

The remaining 400 million dollars represents miscellaneous capital transactions, including some outflow of private U. S. capital to foreign countries.

2. United States Government's Foreign Lending Program.

Long before the end of the war, it became apparent that in the immediate

postwar transition period there would be vast material needs in the war-ravaged areas of the world which could be supplied only from the United States and which could not possibly be financed by the affected countries from their own resources. The UNRRA organization, to which the United States was by far the largest single contributor, was established in November 1943 to help bridge this gap for countries deemed incapable of repaying the assistance even in future years, but its operations were restricted to meeting the subsistence requirements of these countries for relief and primary rehabilitation. To meet the longer-range reconstruction program and to stimulate the economic development of the backward areas of the world, the International Bank for Reconstruction and Development was conceived at Bretton Woods in August 1944.

The end of the war in the Pacific, however, following closely on the end of the European conflict and accompanied by the abrupt termination of the lend-lease program, found the initiation of active operations by the International Bank more than a year away, while the crucial problem of financing the postwar transitional deficit in the British balance of payments remained to be solved. The United States Government, confronted by the prospect of economic disintegration in Europe and Asia if adequate help were not promptly forthcoming, had to act boldly to assist the British in meeting their problem and to provide interim assistance to war-ravaged countries pending the activation of the International Bank. The commitments required to accomplish this program

were almost completed during the year following V-J day and the International Bank is now prepared to assume the main function of financing foreign reconstruction and development needs.

Last July an Act of Congress was approved authorizing the Secretary of the Treasury to extend a line of credit of 3-3/4 billion dollars to the British Government repayable over a 50-year period at 2 per cent interest. Only 600 million dollars has so far been drawn on this credit which is intended for use over a period of several years but drafts on the credit may be expected to accelerate after July of next year when the British resume the free convertibility of sterling for current transactions.

The Export-Import Bank has granted over 2 billion dollars of emergency reconstruction credits mainly to European countries during the past year, of which France alone received 1.2 billion dollars. Actual disbursements on these loans, however, have so far amounted to less than half of the sums committed. The Export-Import Bank has also made a few loans to Latin America and other non-war-devastated countries. It only has about 800 million dollars of unused lending authority and is reserving 500 million dollars for possible loans to China if and when the political and economic situation there becomes more stabilized.

"Straight" lend-lease assistance was almost entirely terminated as of V-J day (except for some continued assistance to China) but the lend-lease goods then in course of procurement have continued to flow

to foreign countries on a long-term credit basis. This so-called lend-lease "pipeline", amounting to about 1-1/4 billion dollars, was almost entirely used up during the year following V-J day.

Military supplies which have been declared surplus in various overseas theaters have been sold in large quantities to foreign governments on a long-term credit basis. A surplus property credit of 300 million dollars was extended to France last May and other similar arrangements have brought the total figure for such credits to some 700 or 800 million dollars. The overseas surplus disposal program has now been largely completed.^R The total amount of U. S. Government credit actually used by foreign countries since the end of the war amounts at present to 3 billion dollars, while a further 1 billion dollars of credit has been extended to the British and the French to cover their repayment of U.S. claims arising out of the war. The amount committed but not yet disbursed on U.S. Government credit granted to foreign countries amounts to nearly 5 billion dollars (3-1/2 billion dollars on the British line of credit and nearly 1-1/2 billion of Export-Import Bank credits).

The International Monetary Fund and the International Bank for Reconstruction and Development also involved contributions by the U.S. Government. When the Fund commences operations early next year, we shall have to pay in about 650 million dollars in gold and about 2.1 billion dollars in dollars or the equivalent (i.e. non-interest-bearing demand notes of the U.S. Treasury). The Fund will also receive

about a billion dollars of gold on foreign country subscriptions. This 3-3/4 billion dollars of gold and U.S. dollars is supposed to be a revolving pool and the rights of member countries to draw upon it (and upon other currencies contributed to the Fund by member countries) are severely restricted. In the case of the International Bank, the total U.S. subscription amounts to 3,175 million dollars, but only 20 per cent, or 635 million dollars, will have to be paid in as the Bank gets into operation. The balance remains as uncalled capital which may be drawn upon by the Bank only if necessary to meet losses. The Bank's principal source of dollar funds will be the private capital market in the United States where the Bank may in due course offer its debentures in the amount of some ~~600~~ to ~~700~~ billion dollars.

3. Balance of Payments Prospects for 1947. The year 1947 will again be characterized by abnormally large net exports of goods and services by the United States. Despite the substantial progress which has been made in the rehabilitation and reconstruction of foreign economies, the requirements of foreign countries which can be met only in the United States will continue for some time greatly to exceed their ability to supply the market here. In fact, the factors likely to limit United States exports in 1947 will not be foreign material requirements but rather the capacity of this country to produce for export and the supply of dollars available to foreign countries which need the goods.

It is scarcely possible at the present time to estimate the

capacity of this country to produce exports, but it is believed that foreign countries could finance purchases of about 11 billion dollars of our exports in 1947 without drawing substantially on their very large existing gold and dollar reserves. This rate of exports was reached during the past summer, although it was cut down in the fall by the effects of the shipping strike. To the extent that foreign countries do draw on their reserves which now amount to nearly 19 billion dollars as compared with only 11-1/2 billion as late as the end of 1941, exports during 1947 may exceed 11 billion dollars. Purchases by foreign countries up to this latter amount might be financed as follows:

(In billions of dollars)

Proceeds from sales of goods
to the United States

\$6

(This figure allows for
a moderate increase in
the volume of U.S. imports
as foreign sources of supply,
especially in the Far East,
open up)

Donations (UNRRA, private
relief shipments, etc.)

1

Disbursements of Export-Import
Bank credits

1

Disbursements on British credit
and by International Fund and Bank

2-1/2

Sale to U.S. of new foreign gold
production

1/2

On the whole it seems likely that these sources of finance will be supplemented by some net flow to the United States of foreign gold and dollar reserves. Several countries (especially Latin America and among the neutral European countries) which have greatly added to their gold and dollar reserves during the war are prepared to spend them to meet their special postwar requirements. On the other hand, although some countries still hold smaller reserves than they would like to hold against the uncertainties of the future, few of them will be able to afford adding much to their reserves during the coming year.

December 4, 1946.
JBK:mla

file 3a

Loans at All Insured Commercial Banks

(In billions of dollars)

Type of loan	Dec. 31, 1946 ^e	June 29, 1946	Dec. 31, 1945	Change, Dec. 1945 to Dec. 1946
Loans - Total	<u>31.5</u>	<u>26.8</u>	<u>25.8</u>	<u>+5.7</u>
Commercial and Industrial	14.5	10.3	9.5	+5.0
Agricultural	1.4	1.4	1.3	+0.1
Purchasing and Carrying Securities	3.3	5.1	6.8	-3.5
Real estate	7.0	5.7	4.7	+2.3
Consumer	3.9	3.1	2.4	+1.5
All other	1.4	1.2	1.2	+0.2

e - estimated.

Member Bank Loans, by Class of Bank

(In billions of dollars)

Bank class	December 31, 1946 ^e	December 31, 1945	Change, December 1945 to December 1946
All Member Banks	<u>27.2</u>	<u>22.8</u>	<u>+4.4</u>
Central Reserve City Banks	8.0	8.7	-0.7
Reserve City Banks	11.0	8.5	+2.5
Country Banks	8.2	5.6	+2.6

e - estimated.