

January 28, 1946.

Mr. Bernard M. Baruch,
597 Madison Avenue,
New York 22, New York.

My dear Mr. Baruch:

I much appreciated receiving your letter of January 20 and your views on our current problems in the control of inflation.

I note that you place considerable emphasis upon the inflationary pressure created by our foreign loans. I happen to know something about this because of my membership on the National Advisory Council, a body created by Congress last July in the Bretton Woods Agreements Act to coordinate our foreign lending policies. The other members are the Secretaries of State, Treasury, and Commerce, and the Chairman of the Export-Import Bank. This same group negotiated the terms of the proposed British loan.

I am therefore able to assure you that no foreign loans are recommended these days without grave consideration of their inflationary impact upon our domestic economy. In fact, speaking for myself at least, I am unwilling to approve any foreign loan at the present time until I have been convinced that the advantages to the United States in making the loan outweigh the disadvantages which you describe.

Now nobody doubts that we ought to make some contribution in money and in goods to the relief and reconstruction of the war-torn world. At one end of the scale we have UNRRA to which by common consent we are donating very large amounts of money and goods in order to provide emergency relief for destitute peoples. We all recognize the necessity for this despite the pressure which the UNRRA procurement program may exert in some of our domestic markets. At the other end of the scale, we have all kinds of grandiose projects which foreign countries would like to undertake with assistance from this country but which are far beyond our present means.

In between, however, lies a range of loan propositions of varying degrees of urgency, many of which we shall simply have to take care of if

we want to see the world get back on its feet within a measurable period of time. You are well aware of the extent of economic disintegration in the world today and I am sure you would be the first to recognize how great an interest we have in the restoration of a workable world economy. So we have to look at each case on its merits, and weigh what we hope to achieve against the limited resources which we can apply to the job.

This was my attitude during the British negotiations and I came out of them fully satisfied that any financial and material sacrifices which the British loan might impose upon us would be well worthwhile. As you know, the main purpose of this loan is to enable the British to work their way out of their present economic straits and to join with us in constructing a free world trading system. If we refuse to give the British a loan on this scale and forced them to fall back upon their own depleted resources, they could only maintain themselves by resorting to virtual economic warfare in world markets. We would enter a new era of rival economic blocs, strangling restrictions on world trade and increasing international friction. Without the collaboration of the British Empire and the other countries linked to it in the sterling area, we can scarcely hope to lay the economic foundations for a durable peace. In short, as I expressed it in a public statement issued at the conclusion of the British negotiations, "It is not a question of whether we can afford to provide the help but whether in our own long-run interest we can afford not to provide it".

In any case, I hope I have been able to convince you at least to some extent that we in Washington are not recklessly throwing fuel on the inflationary fires through our foreign lending policies.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

JBK:mla