



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 6, 1946.

Dear Mr. Chairman:

I think it is about time that I reported to you on various National Advisory Council developments which have taken place since your departure. There has only been one N.A.C. meeting in your absence and no important decisions were made. Another meeting is scheduled for next Tuesday however, and it is possible that I will try to call you on the telephone Tuesday morning to get your views on some issues which may arise there.

The problems which I think you should be informed about are as follows:

1. War Assets Administration Credits. You will recall that the National Advisory Council has given general approval to the granting of foreign credits by the War Assets Administration for the purchase of surplus property in this country but that the War Assets Administration has been asked to submit specific loan proposals for consideration by the N.A.C. They are now proposing a 10 million dollar transaction with Finland which the N.A.C. is quite prepared to approve. However, the War Assets Administration wants to get this approval in the form of a letter from the Council worded in such a way as to relieve the War Assets Administration of any responsibility in granting the credit. In other words, they want to turn the National Advisory Council into an operating agency in the foreign credit field.

This matter was discussed at last Tuesday's N.A.C. meeting and none of the N.A.C. members were willing to write such a letter. The matter will come up next Tuesday and I think the Council will insist upon using the same language as is used in the case of the Export-Import Bank, i.e. that the Council "approves the consideration" of the proposed credit by the War Assets Administration.

2. U.S. Government Commission to Greece. At the last N.A.C. meeting, the Council was asked to approve the organization by the State Department of a special mission of experts which would go to Greece to study the economic problems of that country and to submit a report with recommendations to the U.S. Government. It is recognized by all that the basic problem of Greece is not the lack of economic blueprints but rather the absence of

competent and honest administration. However, the situation is so desperate and the interest of this country in economic and political stability in Greece is so great that no one wants to neglect any measure which might prove of some help. All of the Council members therefore agreed that it would be a good idea to send such a mission. On the other hand, they felt (quite reasonably I think) that the Council should not in any way sponsor the mission since this might give the Greeks the impression that a loan would automatically be forthcoming if the commission's recommendations were adopted. The Council therefore refrained from taking any formal action, but the State Department was encouraged to go ahead with its plans. Mr. Clayton said that they wanted to get a person of prominence from outside the Government to head the mission and to provide him with a staff of experts drawn from Government Agencies. If we have a man available for the job, we shall no doubt be able to participate in the mission.

3. Surplus Property Settlement with China. A mission, headed by Tom McCabe has recently completed negotiations with China for the disposal of non-military surplus property in most of the Pacific area outside of the Philippines, Japan and Korea. This deal involves the transfer to the Chinese National Government of about 800 million dollarsworth of surplus (original cost). In return, the Chinese cancel any obligation on the part of the U.S. for the yuan currency supplied to our armed forces in China and make available about 50 million dollars worth of additional yuan credits to be used by this Government for expenditures in China (diplomatic and consular establishments, scholarships, etc.). The deal did not cover settlement of Lend Lease to China or settlement of the special 500 million dollar credit extended to China by the Treasury in 1942. No formal report on this transaction has yet been made to the N.A.C. but Tom McCabe arrives back this weekend and I expect that such a report will be forthcoming.

4. Italy's Candidacy for Membership in the Fund and Bank. The next meeting of the Board of Governors of the Fund and the Bank (which will take place in Washington at the end of this month) will be confronted with the question of whether or not to admit Italy to membership in these Institutions. Italy's application was presented at the Savannah meeting, where it was supported by the United States but opposed by Greece and Yugoslavia. The application was referred to the Executive Directors for study of the technical aspects (especially the amount of Italy's quota) and the Executive Directors will report to the Board of Governors' meeting, suggesting a quota of around 160-170 million dollars.

There will, of course, be straight political opposition to Italy by the Eastern European countries, but the real question is whether Italy should be admitted to the International Fund until the peace treaties are signed and the magnitude of Italian reparations is established. This matter was discussed at the last N.A.C. meeting and Will Clayton took the position very strongly that this country was committed to support Italy's application.

He and Harry White pointed out that there are clauses in the Fund Agreement which, if properly enforced, would prevent Italy from using the Fund to pay reparations, and the Council agreed that as a minimum, any resolution admitting Italy to the Fund should call specific attention to these clauses and put Italy on notice that they would be enforced.

5. Secrecy in Fund's Consideration of Proposed Changes in Exchange Rates. This issue is a very important one on which no decision has been reached, but it will have to be faced very soon.

The Fund would like to commence operations about the first of the year and would therefore like to issue notices to member countries this month asking them to state the initial exchange rate which they would like to see adopted for their currencies. The Articles of Agreement of the Fund provide for a 90-day period of negotiation between the Fund and member countries on the initial pattern of rates before the Fund actually commences operations. The Fund is all set to send out such notices but is now confronted with the obvious question: If a member country desires to propose an initial rate differing from the present one, what assurance can the Fund give, or should the Fund give, that this proposal will be kept secret? If no such assurance can be given, probably one of two things will happen: either the member country will change the rate without consultation with the Fund and then propose that the new rate be adopted in the initial Fund operations, or the member country will wait until the last day or two of the 90-day period before making its proposal for a change. Either development would be unfortunate from the point of view of the Fund, which would like to have ample time to consider the problem and to negotiate with a member country on any proposed change.

This problem was raised specifically at the last National Advisory Council meeting by Harry White, who said that the other Fund Directors were anxious to adopt an internal Fund regulation providing that any notification of a proposed change in the exchange rate of a member country would be made available only to the Executive Directors themselves and to a few selected members of the Fund's staff. Harry pointed out that such a regulation would prohibit him from consulting with his Government (i.e. with the N.A.C.), and he stated (I think quite frankly and sincerely) that he was extremely reluctant to make what might be highly important policy decisions without such consultation. In the discussion which followed, it was pointed out that the Bretton Woods Agreements Act required full disclosure of information by the Executive Director to the Council and provided for consultation between the Executive Director and the Council. Furthermore, Herbert Gaston (and to a lesser extent, Will Clayton) scoffed at the idea that it would be humanly possible to maintain secrecy on such matters no matter what precautions were taken. In addition, it was pointed out that as long as countries maintained the machinery of exchange control, and in particular as long as they are controlling

capital movements (which is permitted and indeed encouraged by the Fund Agreement) no insuperable problem would be created by the leak of information concerning a proposed change in exchange rates, especially if action on a proposal could be taken one way or the other within a few days.

All the discussion led to the conclusion that we could not possibly accept a Fund regulation which would forbid the U.S. Executive Director from consulting with his Government. However, no positive decision was taken and Harry White said that he would try to think the matter over and see what could be done in further discussions with the Fund Directors. The matter may come up again at the next National Advisory Council meeting, by which time I shall hope to have your views on it.

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The reorganization of our international work has now gone into effect but we are still plagued by personnel difficulties. Alice Bourneuf has decided to follow Walter Gardner over to the International Monetary Fund and Lloyd Metzler has succumbed to a very tempting offer from Yale University. I am particularly sorry to lose him, but am hopeful that after a year of academic life (which he is very anxious to sample again) he may come back to us.

Our delegation from the Mexico City Conference (Woody Thomas and David Grove) have now returned and have reported to the Board on what appears to have been a very profitable and enjoyable trip.

I hope you are enjoying your visit and I shall make every effort not to interrupt it with calls for help. I think that so far I have been able to represent your views with confidence but I shall hope to talk to you early next week, especially on this matter of secrecy in the Fund.

Sincerely yours,



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