



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 24, 1946

Honorable Marriner S. Eccles,
Hotel Ben Lomond,
Ogden, Utah.

Dear Mr. Chairman:

I learn that the Board of Directors of the Export-Import Bank is in revolt against the State Department over the subject of "political loans", i.e. specifically, loans to Italy, Greece, Austria, and Turkey. The Export-Import Bank apparently feels (1) that the State Department has shown a tendency to make semi-commitments on such loans before they have been considered by the Bank's Board of Directors, and (2) that some of the loans are not sound banking risks in the sense that ability to pay can be clearly proven.

At the request of the Bank, the President called its Board of Directors into a conference held last Friday, which was also attended by Mr. Byrnes, Mr. Acheson, and Mr. Clayton from the State Department (as far as I can ascertain, no other member of the N.A.C. - not even Mr. Snyder - was present.) I gather that no definite decision was made at the meeting but that a compromise is likely to be reached in the sense that only relatively small Export-Import Bank loans will be made to the countries listed above.

Some action will have to be taken promptly on the long-delayed loan of \$100,000,000 to Italy, since the Italian Premier, Signor Gasperi, is arriving in Washington next week on an official mission. I understand from Mr. Maffry, who has given me most of the information above, that if the State Department and the Export-Import Bank can get together on this matter, a special meeting of the N.A.C. may be called early next week to consider the Italian loan. He expressed concern at your absence and asked if I could obtain your views so that the meeting could be held, if necessary, before your return. I told him that I would write you concerning the matter at once.

You will recall that this question of a \$100,000,000 loan to Italy has been before the Council on several occasions and in fact has been approved subject to awaiting final outcome of the reparations negotiations. These have now been completed and the result, while not



corresponding wholly to American views, appears to be a reasonable compromise. The total reparation bill for Italy has been fixed at \$360,000,000 (Russia - \$100,000,000, Yugoslavia - \$125,000,000, Greece - \$105,000,000, Ethiopia - \$25,000,000, and Albania - \$5,000,000). To some considerable extent this bill will be paid by the transfer of Italian assets in the countries concerned and by the delivery of Italian capital equipment not required for the country's peace-time economy (and possibly a few Italian merchant ships). The remainder must be paid out of current production but deliveries from this source will not commence until two years after the signature of the peace treaty and the countries receiving reparation from current output will have to supply Italy with the raw materials required for the purpose.

We are therefore reasonably well protected against the charge that assistance from the United States will simply provide reparations to Russia and the other recipients. The Italian bill is fixed (and fixed by agreement with us), and none of the supplies which we furnish to Italy will be passed on as reparations. Of course, it remains true that Italy's capacity to maintain itself by ~~exporting~~ ^{may be} is reduced to the extent that industrial capacity is absorbed in producing reparation goods.

We must now face the question of whether we want to abandon Italy or help her through the post-UNRRA period. UNRRA deliveries will soon terminate and the release of the "non-troop-pay-dollars" (which is now under way and will provide \$100,000,000) will meet her needs for only a brief period. The State Department is definitely planning to ask Congress for a relief appropriation covering part of Italy's food import requirements in 1947, but further funds will be required if Italy is to be restored to a self-sustaining basis in the foreseeable future. Furthermore, these funds are required now in order that the Italians can plan their program for the year.

In all the circumstances I earnestly recommend that you authorize me to go along with the \$100,000,000 loan if the other members of the Council approve. If the question comes up at all before your return, i.e. if the State Department and the Export-Import Bank reach agreement - I think there is no doubt that the other members of the Council will approve the loan unanimously.

Sincerely yours,



J. Burke Knapp