BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date February 4, 1947

To Chairman Eccles

Subject: Proposed loan on gold to Poland

From Mr. Knapp

Mr. Sanford of the New York Bank telephoned me yesterday to inform me that the Bank has received a request from the Bank Polski (Polish) for a 20 million dollar loan against the collateral of Bank Polski gold held under earmark at the New York Bank. The loan is requested for a term of one year, the maximum period for which the New York Bank makes loans on gold under present practices. Mr. Sanford said that this matter would probably be considered by the Bank's Board of Directors on Thursday, but that he did not want to proceed with it before ascertaining whether the State Department would object. He asked me to obtain the State Department's views.

I called Norman Ness on this matter last night and he called me back this morning to say that he had spoken to Mr. Clayton and other political officers of the Department, and that they had no objection. Mr. Ness was a little surprised that the political officers were willing to go along, but said that they had been persuaded by the argument that if the Poles were not allowed to borrow against this gold they could always raise the dollar funds by selling it to the United States. I have reported the State Department clearance to Mr. Sanford.

However, I am very much concerned about this proposed loan for other reasons. In this case, as in the case of the 10.8 million dollar loan on gold to Greece which was made last September and which is now due in March, I am afraid the System may be risking serious future embarrassment. It is almost certain that these countries will not have dollars available to repay these loans at maturity without selling the gold collateral. On the other hand, the main reason which is causing them to borrow against the gold rather than selling it outright is the "psychological shock" which would be caused by their loss of the gold. This "psychological shock" is likely to be just as important six months or a year from now as it is today. In other words, if we once engage ourselves in these loans, we will find it very difficult indeed to terminate them. Each time they come to maturity, we shall be told that the sale of the gold collateral would have disastrous consequences in the country concerned, and on the other hand that the repayment of the loan from other exchange resources (if they exist) would cause great hardship and sacrifice. In short, we will find ourselves under almost irresistible pressure to renew the loans for much longer periods than the one year term which has hitherto been adhered to in all of our gold loan operations.

I think the New York people share some of this doubt as to the wisdom of our embarking on the Polish transaction, and they may not recommend favorable action by their Board of Directors. In any case, however, I think this is a problem to which you will want to give serious consideration.