

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 10, 1947

To Chairman Eccles

Subject: National Advisory Council meet-

From Mr. Knapp

ing today.

With regard to the joint meeting with the Aldrich Committee this afternoon, I think I should only call your attention (in connection with item (1)--Preliminary Discussion of I.T.O.) to the strong defense of the I.T.O. program which was made by President Truman in his speech at Waco. The President was quite realistic about the outlook for free exchanges and free multilateral trade. He did not promise that these could be attained through the International Fund and the I.T.O. What he did say is that through the I.T.O., "instead of retaining unlimited freedom to commit acts of economic aggression its members would adopt a code of economic conduct and agree to live according to its rules". Of course the United States is seeking a general reduction of trade barriers, including tariffs, through the I.T.O., but the main objective is to get some form of international consultation concerning the use of direct quantitative controls over trade transactions. Even under the I.T.O. charter, member countries will be free to exercise such controls (in a non-discriminatory manner) to meet balance of payments difficulties, and (by agreement with the I.T.O.) to foster domestic industrialization programs. Still, there will be international consultation designed to minimize the frictions arising out of such measures.

The President pointed out forcefully that without some limitation upon "the present freedom of governments to impose detailed administrative regulations on their foreign trade", such trade was doomed to become almost entirely a government activity with the result that freedom of private enterprise would disappear in this area, not only abroad but also in the United States. I agree with you that there is a strong and even inevitable tendency in this direction, but without a strong lead from the United States this tendency would become overwhelming in the very near future. All that we can hope to do is to restrain this tendency in some degree, but nonetheless the effort should be made.

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I should like to give you the following comments on the agenda for the National Advisory Council meeting which will follow the joint meeting with the Aldrich Committee.

(1) Export credit insurance and transfer guaranties. We have secured general agreement in the Staff Committee on the following statement of National Advisory Council policy on this subject:

"(a) There would not at this time appear to be any convincing need for a Government system of export credit insurance or of transfer guaranties;

"(b) If sufficient need could be demonstrated, while certain difficulties would exist, a properly-administered system of Government export credit and Transfer risk insurance would seem to be feasible." ✓

While the second paragraph may seem gratuitous, we had to include it in order to get general agreement. As a matter of fact, there are very serious administrative difficulties in a government system of transfer insurance alone, if--as the Export-Import Bank would propose--rates are quoted on exports to different countries reflecting the degree of transfer risk involved in each country. The Bank would hope to keep its quotations for individual countries secret (for example this might be done by requiring exporters to insure all of their exports to a number of different countries so that only a blanket rate would need to be quoted), to the extent that this proved impracticable, the leakage of information concerning the Bank's rate quotations might prove very upsetting to the exchange market. This particular administrative problem disappears if--as in England--rates are quoted covering both transfer insurance and credit risk.

The Staff Committee was unable to agree as to whether or not the Council should write a letter stating its policy to the Chairman of the Senate Banking and Currency Committee. The second alternative in the proposed action contains a draft of such a letter which makes clear that this joint letter is not intended to exclude separate letters from the different agencies.

Item 2, Terms for Netherlands Lend Lease and surplus property credit. The Council is requested to approve inclusion in all agreements for the over-all settlement of war accounts a clause already included, with the approval of the Council, in the French settlement providing for the postponement, by mutual agreement, of any payments falling due at a time of "extraordinary and adverse economic conditions". The problem arises at the present time in connection with negotiations, but the principle might also be applied to general war settlements with other countries.