BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 29, 1947

To Chairman Eccles

Subject: National Advisory Council developments

From Mr. Knapp

JMK

No N.A.C. meeting is scheduled for this week, but a telephone poll has been taken of the members of the Council on the question of the admission of Australia to the International Fund and Bank. Although Australia was represented at Bretton Woods, where it received a quota of 200 million dollars in the Fund and a subscription of the same amount in the Bank, the Australian Parliament did not ratify Australia's adherence to the Fund Agreement until a month ago. It is proposed to admit Australia, however, on the same terms as original members. I felt no hesitation in casting your vote in favor of Australia's membership.

On the matter of the election of new Directors, it appears that the views expressed by the National Advisory Council will shortly be carried out and that a new Italian Director will be elected in both the Fund and the Bank (the Fund has already called for a special election and the Bank is expected to follow suit shortly). Australia will not participate in the elections, but as soon as a sufficient number of additional countries join the Fund (and the Bank) there will be a second supplementary election in each institution, in which Australia will undoubtedly succeed in electing its candidate.

Meanwhile the N.A.C. met last week to consider certain Mexican financing questions in anticipation of the visit of President Aleman. I did not feel it necessary to telephone you concerning these matters since I was sure that you would agree with the action taken.

Mexican loan. You will recall that the Mexicans applied to the Export-Import Bank some weeks ago for credits of 175 million dollars covering a variety of industrial projects, railway and highway construction, and hotel development. The Staff Committee, upon the proposal of the Export-Import Bank representative, recommended that the Council approve credits of up to 40 million dollars for these purposes. This figure was arrived at by excluding from the Mexican request the local currency expenditures involved and by eliminating some of the proposed projects which either were not well enough developed in the Mexican presentation or were considered more suitable for the International Bank. All of the projects recommended for approval require only medium-term (5 to 7 year) financing.

When the matter reached the Council, Mr. Martin and Mr. Gaston said that after further consideration they had found some other projects (for highway and hotel development) suitable for consideration by the Export-Import Bank, and at their suggestion the overall figure approved by the Council was increased from 40 to 50 million dollars.

U.S. Stabilization Fund Commitment. In 1941 the U.S. Stabilization Fund entered into an agreement with Mexico to purchase up to 40 million dollars worth of Mexican pesos if dollars were required by Mexico for currency stabilization purposes. This commitment, which was entered into for a period of two years, was renewed in 1943 and again in 1945. It is now due to expire on June 30, 1947, and although the Mexicans have never made any use of this credit, they have requested that it be renewed for a term of four years and that the amount be increased "substantially".

The Staff Committee agreed that it would be reasonable to renew the commitment for a term of four years, but opposed increasing the amount in view of (a) the limited funds available in the U.S. Stabilization Fund (at present about 280 million dollars), and (b) the fact that Mexico has now a quota in the International Monetary Fund of 90 million dollars. However, at the Council meeting in response to a plea from Harry White, and in order to make a special gesture of good will to President Aleman, the Council approved increasing the figure to 50 million dollars.

The Council's action was qualified, however, by the proviso that the terms of the Stabilization Commitment as renewed should be "subject to appropriate amendment to take account of the existence of the International Monetary Fund". This is a compromise formula which does not commit the Treasury to any particular revision of the terms, but there was considerable discussion in the Staff Committee and in the Council concerning how the new terms should be drafted. In the end, we reached substantial agreement along the following lines:

(1) A new clause will probably be introduced providing that as long as Mexico can draw dollars from the International Fund it will not draw dollars from the U.S. Stabilization Fund, except after consultation with the U.S. Treasury. I argued strongly for a clause of this character and was supported at the Council meeting by Harry White. The Treasury people had proposed something rather less binding and their position may prevail in the end, but I think Mr. Snyder was impressed with the idea that the U.S. Stabilization Fund should be a definitely third line of reserve (after (a) Mexican gold and foreign exchange holdings, and (b) the Mexican quota in the International Monetary Fund). Of course, the International Fund cannot under its charter provide dollars to finance capital movements and there may arise cases in which it would be appropriate for the U.S. Stabilization Fund to provide dollars for this purpose.

(2) A clause will be introduced providing that if in the operations of the Agreement any inconsistency or conflict arises with the International Monetary Fund, consultation is to occur on the initiative of either party or of the Fund; also that if either party withdraws from the Fund, the terms of the Agreement are to be reviewed in the light of the new circumstances.

Incidentally, the present Stabilization Agreement provides that if Mexico exercises the right to draw dollars in exchange for pesos, it must repurchase the pesos with dollars in six equal monthly installments beginning six months after receipt of notice from the Secretary of the Treasury. These repurchases are to be made at the same rate of exchange at which the dollars were originally acquired, and interest accumulates at the rate of 1-1/2 per cent per annum on the amount of dollars utilized. The new Agreement will have similar provisions except that the period of repayment will be extended from six to twelve months (also beginning six months after receipt of notice from the Secretary of the Treasury).