

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 13, 1947

To Chairman Eccles

Subject: French loan contract

From Mr. Knapp



You will recall that in January the Council approved an Action (copy attached) requesting the U.S. Executive Director in the Bank to attempt to secure incorporation in all of the Bank's loan contracts a clause obligating the borrower to refrain from commercial and financial arrangements inconsistent with the basic purposes of the Bank and providing for consultation by the borrower with the Bank if its policies appear to impede the successful functioning of the Bank.

The proposed provision, which was drawn up especially with the Polish case in mind, was a pretty stiff one and apparently the foreign Directors in the Bank were not very sympathetic to it. However, it was still hoped that some milder version could be agreed upon.

This issue came to a head in the drafting of terms for the French loan contract which was signed last Friday. It is unfortunate that France happened to be the first borrower from the Bank since, of course, the French were much more reluctant to enter into a binding agreement than some smaller country would have been. On last Thursday morning, Mr. Black addressed a letter to Secretary Snyder (see copy attached) enclosing an alternative draft clause covering the subject matter of the Council's Action which, he said, was all that could be obtained from the French. At the Staff Committee meeting that afternoon we discussed this alternative version and agreed that it was almost completely lacking in content. We objected in particular to the first two sentences which seemed to make any commitment by the French Government to supply information and "participate in exchange of views" with the Bank dependent upon full discharge by the Bank of its mission in the world as conceived at Bretton Woods.

However, there was terrific pressure to go ahead with the signature of the French loan contract (especially since the loan had already been prematurely announced in Paris) and Will Clayton had cabled from Geneva his "very reluctant" acceptance of the new draft.

On Friday morning Mr. Glasser took a telephone poll of the members of the N.A.C. on this question. I told Glasser that I had not been able to consult with you, that I knew you would be severely disappointed with this development, but that I could not say how you would act if you were aware of the pressure being brought to conclude the loan contract. I therefore said that we abstained from voting on this matter.

Incidentally, as a measure of the pressure which the French were under, you will be interested to know that France drew 25 million dollars from

May 13, 1947

the International Monetary Fund last week, thereby acquiring the dubious distinction of being the first country to make use of the Fund's resources.

The French loan contract as signed on Friday contains the clause cited in Mr. Black's letter. The loan is for 30 years with amortization commencing in 1952. It bears interest at 3-1/4 per cent from the date on which funds are disbursed plus the 1 per cent commission for special reserve, payable from the date of commitment. There is a commitment fee of 1-1/2 per cent on undisbursed funds.

The Bank issued a press release last Friday which gives a full statement of the purposes of the loan, analyzes French requirements for foreign assistance, emphasizes the importance of economic recovery in France as a contribution to general recovery in Western Europe, and contains a special section entitled "The Need to Arrest Inflation" in which it is stated that the French Government recognizes the need to balance the ordinary budget and "expects to balance it". The statement concludes with the following paragraph:

"Additional Loans to France.

The President of the Bank has stated to the French authorities that, although the Bank is not now prepared to make any commitments with regard to a further loan, it will be willing to consider an additional application from France later this year. Any new application will be considered in the light of the funds which the Bank will then have available for lending and of the progress made in carrying out the French economic and recovery program."

Attachments 2

May 8, 1947.

My dear Mr. Snyder:

Reference is made to Action No. 119 of the National Advisory Council which requested the U. S. Executive Director to attempt to secure agreement by the International Bank to the incorporation as a condition in all loan contracts the sense of a clause set forth in the action referred to above, concerning the trade policy objectives of the United States.

In negotiations with the representatives of the French Government the Bank has encountered strong resistance to the incorporation of a clause as specific as that contained in Action No. 119. As an alternative to this clause the Bank has obtained agreement of the representatives of the French Government to the inclusion in a letter from the French Minister of Finance, which is referred to in the contract and attached thereto, of the following paragraph:

"France joined the Bretton Woods Institutions not only to obtain necessary support for her reconstruction efforts, but also in order to participate in an essential task of international cooperation. The French Government is confident that the Bretton Woods Institutions will not disappoint the hopes and expectations which they have created throughout the world. With this in mind, the French Government as a member of the International Bank and also as guarantor of the loan is prepared to cooperate to the fullest possible extent in the carrying out of the purposes of the Bank. The Bank should receive all the information necessary to the performance of its functions. The French Government will supply the Bank with such information, including data with respect to the development of our international balance of payments and our external debt. It is also willing to participate in exchange of views on subjects of mutual interest. France is confident that such exchanges of

The Honorable

John W. Snyder,

Chairman, National Advisory Council

on International Monetary and Financial Problems,
Washington, D. C.

information or views will be to the advantage of both parties, and that the International Bank for Reconstruction and Development will be of substantial assistance to France in carrying out her program of reconstruction and development."

It is felt that any representations which the Government of the United States or the Bank may wish to make in regard to trade policy objectives would be possible under this general paragraph. The Bank will give further study to the exact wording of a specific clause along the lines of that contained in Action No. 119 in any contracts which may be negotiated with members falling into the same category as Poland.

I would appreciate an indication from the Council that the Bank may go ahead on this basis.

Sincerely yours,

Eugene R. Black
U. S. Executive Director