

May 26, 1947

MEMORANDUM To: National Advisory Council Members

From: Secretary of the Council

Subject: Report of Activities of the Council
to March 31, 1947

Attached are revised pages 27 and 28 of the
"Report of Activities of the National Advisory
Council to March 31, 1947".

The subject of repayment of United States foreign loans was treated in some detail in pages 5-7 of the "Statement of the Foreign Loan Policy of the United States Government by the National Advisory Council on International Monetary and Financial Problems" transmitted by the President to the Congress on March 1, 1946. At this time, the Council wishes to emphasize again that:

..... the ability of foreign countries to transfer interest and amortization on foreign loans to the United States depends upon the extent to which we make dollars available to the world through imports of goods and services, including personal remittances and tourist expenditures, and through new investment abroad.

The dates by which all the objectives of the program can be attained, and the additional amounts of United States loans and aid required for their attainment, cannot be foreseen with any degree of certainty. Foreign countries' relief needs in the immediate future, for example, will depend heavily on the success of their local harvests and on the availability of transportation for moving food to famine districts. The rate of reconstruction progress will be greatly affected in the next few years by the availability of coal and other industrial raw materials essential for continuous industrial activity. Development of economically undeveloped areas will involve the provision by more prosperous countries of engineering services and industrial equipment over a period of years. Thus, the question of the extent to which this country will need to provide additional assistance to accomplish the remainder of its foreign financial program cannot be readily answered.

In 1946, total transfers of goods and services to foreign countries amounted to \$15.3 billion, while U.S. imports of goods and services amounted to only \$7.1 billion. Utilization by foreign countries of U.S. Government loans and other aid, including private donations and remittances, served to finance approximately \$6 billion of the net balance. About \$2 billion was financed through the use by foreign countries of their own dollar assets and gold.

Foreign requirements of goods and services from the United States to continue relief and reconstruction programs, to meet deferred demands from the war period and to continue development projects remain large in 1947. The Department of Commerce reports that in the first quarter of 1947, total U.S. transfers of goods and services to foreign countries amounted to almost \$4.9 billion while U.S. imports of goods and services amounted to slightly more than \$1.9 billion. The first quarter amounts are equivalent to an annual rate of \$19.5 billion of transfers of goods and services to foreign countries and only about \$7.7 billion of imports. During the first quarter of 1947, foreign countries financed the difference between U.S. transfers of goods and services and U.S. imports of goods and services by net utilization of about \$1.9 billion of U.S. Government loans and other aid, including private donations and remittances, and by a reduction of about \$1.1 billion in their own dollar assets and gold.

Unutilized amounts of U.S. foreign loans and aid declined from \$6.5 billion as of December 31, 1946, to about \$5.4 billion on March 31, 1947. Foreign gold and dollar assets in the form of short-term balances and marketable securities declined from approximately \$25 billion as of December 31, 1946, to about \$24 billion on March 31, 1947. A sizeable portion of these gold and dollar assets and of new foreign gold production, currently at the rate of about \$700 million per annum exclusive of USSR production, must be maintained as working balances for trade purposes and currency reserves.

As of March 31, 1947, practically all U.S. governmental resources authorized for foreign financial assistance, excluding United States participation in the International Monetary Fund and the International Bank, had been committed to foreign countries. The existing geographical distribution of this assistance and of foreign countries' own exchange resources does not continue to conform in all cases with the changing needs of various countries for foreign purchasing power. Despite the fact that the International Bank and the International Monetary Fund have begun operations, a number of countries may be forced to impose greater restrictions on their imports, particularly of United States goods and services, unless further financial assistance beyond the present powers of the United States Government lending agencies is made available. The National Advisory Council is giving detailed consideration to the extent to which essential imports may have to be restricted by foreign countries, the impact of increased foreign import restrictions on the world economy and the United States, and the extent to which it would be in the interest of the United States to provide additional financing for essential imports by foreign countries.