

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date May 27, 1947

To Chairman Eccles

Subject: National Advisory Council

From Mr. Knapp 

meeting

I should like to give you the following comments on the items listed for consideration at the National Advisory Council meeting this afternoon.

(1) Philippine loan. The Philippine Government has applied for the remaining 50 million dollars of the 75 million dollar RFC credit authorized by Congress for the current fiscal year. We have a report from the Joint Philippine-American Financial Commission recommending a credit of this amount minus (a) the amount of sugar taxes to be remitted by the U.S. Government to the Philippine Government, and (b) the amount (up to a maximum of 10 million dollars) by which Philippine budgetary revenues in the fiscal year ending June 30, 1947 exceed 125 million pesos. Actually, the sugar taxes, amounting to 5 million dollars, have now been remitted. It will not be possible, however, to establish the amount of Philippine budgetary revenues for fiscal 1947 until sometime this fall.

The Staff Committee recommends, therefore, that the Council approve an RFC credit in the amount of 45 million dollars (50 million less the 5 million of sugar taxes) and that the excess of Philippine budgetary revenues for fiscal 1947 over 125 million pesos (up to a maximum of 10 million dollars) be used to repay the credit as soon as the amount of such excess can be determined. The remaining portion of the credit, in accordance with the recommendations of the Philippine-American Financial Commission, would mature on July 1, 1953 (or in about six years), and interest would be charged at the rate of 2 per cent per annum as in the case of the earlier 25 million dollar advance.

This credit is not affected by the controversy which has developed as to whether budgetary loans will be necessary for future fiscal years (see my memorandum of May 21, 1947). We have received no further word from Manila as to the outcome of this controversy.

(2) Report on NAC activities. The last two pages of the NAC Annual Report to Congress have been redrafted slightly, and I suggest that you read them if possible, especially the final paragraph.

It is perfectly apparent that the rate of exports reached in the first quarter of this year cannot be continued for more than a few more months and that in subsequent years, unless the United States undertakes new foreign financing on a large scale, it must drop substantially below present levels. While almost all U.S. exports are accomplishing some useful economic objective

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in foreign countries (if only because they are being used to combat inflation--e.g. in Latin America), it is obvious that not all of them are "essential" to foreign countries. Pursuant to the thought expressed in the last sentence of the Annual Report, the Staff Committee is about to undertake a country-by-country analysis of the outlook for the next year or so, with a view to determining the extent to which additional financing may really be required to maintain the flow of essential supplies.

In this connection, you may have seen in the papers that Secretary Marshall has announced that his new "top planning group" in the State Department has undertaken a study along the same lines. Nobody (at least outside the State Department) knows much about this study, and the Treasury is pretty sore about General Marshall's announcement, feeling that this subject is clearly within the jurisdiction of the National Advisory Council.

Attachment