

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 10, 1947

To Chairman Eccles

Subject: National Advisory Council meet-

From Mr. Knapp 

ing to be held on Thursday

SECRET

I should like to give you the following comments on the items so far listed for consideration by the National Advisory Council on Thursday. It is possible that a further item will be added relating to some technical matters in connection with International Bank securities; if so, you will receive a memorandum on this subject from Mr. Dembitz before the meeting.

(1) Gold transactions at premium prices. The Staff Committee is presenting a paper on this subject which closely parallels the work done by the Federal Reserve Staff Group and Policy Group. As you are aware, it has now been suggested, largely at the initiative of the British Director in the International Monetary Fund, that the Fund issue a statement deploring international transactions in gold at premium prices and recommending that all members take effective action to prevent such transactions. In the recommended action by the Council, the Council would instruct the U.S. Executive Director to support the issuance of such a statement, would ask him to seek the publication of the statement by the Fund (or at least to take the position that member governments be permitted to publish the statement), and would approve "in principle" the desirability of appropriate action by the United States complying with the request of the Fund.

With respect to the last matter, it is suggested in the Staff Committee's paper that the Treasury consider tightening its gold regulations, especially as related to the import and reexport of gold from the United States, and that the Treasury Department and the Federal Reserve Board, after consultation with the Aldrich Committee, might "exercise moral suasion upon American banks and business enterprises to induce them to desist from engaging in international transactions in gold at premium prices." This is right in line with the recommendations contained in the Policy Group memorandum on gold problems which we hope to present shortly to Secretary Snyder.

I had an opportunity to discuss this whole matter with Mr. Sproul before the Staff Committee meeting which considered the problem, and I believe that he is thoroughly in agreement with the result. In particular, he strongly favored the position which we had taken in favor of publication of the Fund's statement. It would seem to me far preferable for the Fund itself to publish a statement, but it will certainly be sufficient for our purposes if we (i.e. the U.S. Government) are authorized to publish it.

(2) Final draft of N.A.C. report. In an effort to meet Mr. Martin's objections to some of the language used in the final section of the report, the Staff Committee has decided to delete any references to a "foreign financial program" in the section reviewing our activities to date. I must say I think

To: Chairman Eccles

-2-

June 10, 1947.

this is a rather silly performance; if the Council has not been pursuing a "program", it has been failing to do its job.

The final paragraphs outlining the present position remain unchanged, except that the last three sentences now read as follows:

"Thus, the question of the extent to which this country will need to provide additional assistance to foreign countries cannot be readily answered. 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 [agencies of the] National Advisory Council [are] [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."

The bracketed material represents a compromise suggestion which would duck the question of whether or not the N.A.C. is responsible for developing the foreign lending policy. Meanwhile, however, I understand that General Marshall and the President are being requested to state whether or not they believe that the Council should assume this responsibility. I understand that your position is that if they approve, you would accept the language as it originally stood.

I should only like to add that it seems to me perfectly clear that the Council should do the job. The State Department will, of course, make its contribution as a member of the Council, and the policies formulated by the Council are, of course, subject to approval by the President. The Council remains, however, the body which is technically best qualified to pass judgment on the intricate problems of our foreign lending policy, and it seems to me that the Council's "coordination" of the policies and operations of foreign lending agencies necessarily implies the development in the Council of the over-all program and objectives.