

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date July 1, 1947

To Chairman Eccles

Subject: National Advisory Council

From Mr. Knapp

meeting today

I should like to give you the following comments with regard to the items on the agenda for today's National Advisory Council meeting.

(1) and (2) WAA credits to Norway and Haiti. The Staff Committee recommends that the Council approve the extension of WAA credits to Norway and Haiti in the amount of 12 million dollars and 225,000 dollars, respectively. In view of the small size of the Haitian credit, no paper has been prepared on this subject, but the Secretary of the Council will report orally on the matter in order to give members of the Council an opportunity to register opposition.

(3) British gold subscription to the International Monetary Fund. You will recall that the Articles of Agreement of the International Monetary Fund required each country to make an initial gold contribution to the Fund representing 25 per cent of its quota, or 10 per cent of its net official holdings of gold and dollars as of September 12, 1946, whichever is the less. In the case of the United Kingdom, 25 per cent of the quota would amount to 325 million dollars, but the British have presented a statement to the Fund indicating that their net official holdings of gold and U.S. dollars on September 12, 1946 amounted to only 2,105.1 million dollars, on the basis of which their required gold contribution would be only \$210,510,000.

Two questions have arisen concerning the British Government's statement of its holdings.

In the first place, in order to arrive at a figure of net holdings, they have invoked a clause of the Articles of Agreement which permits deduction from their gross holdings any amounts of their currency held by foreign countries which "carry specified rights of conversion into gold or U.S. currency". The British are claiming total deductions under this heading of about 542 million dollars, a large part of which consists of sterling deposits held by the Bank of Portugal which are redeemable in gold over a period of years, commencing in 1955. Some of the Fund people have questioned whether this was a proper deduction in view of the fact that the right of conversion into gold was not exercisable on demand. However, the Staff Committee, recognizing that it might be logical to stipulate in the Articles of Agreement that such rights of conversion should be demand rights, recognizes that upon the strict letter of the Articles of Agreement the British interpretation is undoubtedly correct. They are supported in this belief by Eddie

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Bernstein, who has prepared a formal statement to the effect that the relevant clause in the Articles of Agreement was specifically drafted in such a way as to allow the British to deduct their future gold obligations to Portugal.

The second point is more difficult, namely the question of the extent to which the British should be required to present documentary proof of the obligations for which they claim deductions. The British have declined to make available to the Fund the text of the secret agreements with Portugal and other countries containing these obligations on the ground that these agreements contain other material of a secret nature which is not relevant to the Fund's consideration of the problem at hand. Apparently, however, the British have declared their willingness to submit these agreements to the scrutiny of the Managing Director of the Fund on a confidential basis.

The Staff Committee recommends that this procedure be adopted for handling all international agreements which are "directly pertinent to the operations of the Fund", on the understanding that the Managing Director shall make available to the Fund's Board of Executive Directors "such relevant sections of the text of the agreements as are necessary for the Board of Executive Directors to discharge its responsibilities to the Fund".

(Note: This proposed action has been written in general terms, although it was my understanding at the end of the Staff Committee discussion that the action would relate only to the specific problem of the disclosure of information bearing upon the determination of the British gold contribution. However, I would not oppose stating the action in general terms, since presumably Overby will deal with the problem of the British gold contribution first and will not prejudice the solution of this problem by introducing at the outset more far reaching proposals.)

(4) Clayton cable concerning feasibility of relaxing certain requirements of the U.S.-U.K. Financial Agreement. Mr. Clayton and Ambassador Douglas sent a cable from London on June 23 stating that while no question had been raised with them by the British concerning relaxation of the terms of the Anglo-American Financial Agreement, it would be helpful for them to know whether as a matter of policy it would be feasible.

(a) for the British to be granted an extension of time in the case of particular countries on their obligation to make current sterling (and amounts released from blocked sterling balances) fully convertible (under the terms of the Agreement such extensions could be granted by the Administration without consulting Congress), and

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(b) for the British to be granted a general relaxation in their obligations to make sterling convertible, or a relaxation in their obligation not to discriminate against the United States in the administration of their import controls (such relaxation would require the consent of Congress).

The Staff Committee is presenting a paper on this subject briefly outlining the problem, but refraining from making any recommendations, since Mr. Clayton apparently desires only an opinion on the political feasibility of modifying the requirements specified above.

For your guidance, I should like to suggest:

1. That none of the Staff feels that an approach to Congress would be feasible at this time, and none of us believe that the British will request at this time exemptions or extensions which would require Congressional approval.

2. It does appear quite possible that for purely technical reasons the British will request extensions of time in introducing full sterling convertibility in the case of a few specified countries, and personally I see no reason why they should not be granted.

The principal technical problem with which the British are confronted arises from the fact that they are obligated to make sterling convertible for current transactions but not for other (i.e., capital) transactions. Therefore some policing is required of the purpose for which the conversion of sterling into third currencies is requested. This is a manageable problem in the case of sterling transactions by foreign countries having well-established exchange control authorities who are policing the transactions of their nationals, but where such authorities do not exist (e.g. in the case of China), the British must themselves police the transactions to assure that convertibility of sterling is not misused for the financing of capital transactions. The setting up of such a policing system is a major headache for the British, and they may well request that they be given more time to accomplish it. Such a request should not be taken as reflecting upon the British willingness loyally to carry out their obligations under the Anglo-American Financial Agreement.

(5) Report of Joint Philippine-American Financial Commission. This report has now been received and is being analyzed in the various member agencies of the National Advisory Council. A paper commenting upon

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the report will be submitted to the Council by the Staff Committee when this analysis has been completed. Meanwhile, especially in order to give support to the efforts of the Philippine Government to introduce tax reforms before their Congress adjourns, it is considered highly desirable for the report to be sent on to the President and the Congress for issuance as a public document. When the Commission was first formed, it was agreed that its final report (which is, of course, a joint report by Philippine and American experts) would not be subject to approval of the National Advisory Council before publication. It will therefore be suggested that the report be forwarded promptly to the President, perhaps with a note to the effect that the N.A.C. has not yet considered the substance of the recommendations which it contains.