

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 19, 1947

To Chairman Eccles

From Mr. Knapp

Subject: Joint meeting with Aldrich Committee; and National Advisory Council meeting.

SECRET

With regard to this afternoon's joint meeting of the National Advisory Council and the Aldrich Committee, there is no formal agenda, but probably the discussion will revolve around the European Recovery Program. The Aldrich Committee may present recommendations on the matter of stabilization loans, disposition of local currency proceeds, adjustments of exchange rates, and other similar related matters with which you are familiar.

They may also raise the question of whether as a part of the Program the U.S. Government might guarantee new investments to be made in the European countries by American corporations. The Staff Committee has been studying this matter and will probably come up shortly with a recommendation that the Administrator of the Program have some limited authority to give such guarantees as insurance not against ordinary business risks, but against the blocking in foreign countries of capital and earnings on productive dollar investments made in those countries.

Following the meeting with the Aldrich Committee, the Council will be asked to consider the following matters:

(1) The Austrian quota in the International Monetary Fund

Austria has now made application to join the International Fund and Bank, and the National Advisory Council has previously approved accepting this application. The Fund's staff and the N.A.C. Staff Committee have agreed that 50 million dollars would be an appropriate quota, and the N.A.C. is asked to approve this, together with the usual stipulation that Austria should accept a subscription of this size to the International Bank.

(2) German surplus property deal

The procedure for this program has now been further clarified in a direction which I suggested some time ago. It is now proposed that the initial German obligor on this deal should be not the Anglo-American Joint Export-Import Agency, but rather the German Bizonal Economic Council which is the embryonic German Government. As before, it is proposed that the obligation be assumed by the eventual legal German Government when such a government is established and a peace treaty is signed.

(3) Financial questions in connection with the European Recovery Program

As a result of preliminary discussions between Mr. Lovett and Senator Vandenberg, a minor modification is being proposed in the N.A.C. action regarding "grants versus loans" which would provide that "heavy capital equipment" should under no circumstances be provided as a grant, while on the other hand raw materials might be provided as a grant so long as they are not to be used in connection with programs of capital development. To my mind, all of these distinctions are close to nonsense, but I see no objection to the proposed modification. The exclusion of "heavy capital equipment" from the grant category may do no harm, since in most, if not all cases, countries receiving aid will have sufficient proceeds from dollar exports to pay for their imports of "heavy capital equipment" from the United States. They can therefore afford to exclude such items from the import program which they want the United States to finance on a grant basis.

The question of stabilization loans will also be brought up again, although as of last night I understood that no reactions had been obtained to this proposal from Congressional quarters. I think there is an increasing feeling (a) that the time for substantial stabilization loans is not likely to arrive before 1949, and (b) that it might be wise to defer until next spring any request to the Congress for authority of this kind.