

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Office Correspondence **SECRET**

Date November 24, 1947

To Chairman Eccles

Subject: National Advisory Council

From Mr. Knapp

meeting this afternoon.

The following matters are listed for discussion at the National Advisory Council meeting this afternoon.

1. 8 million dollar Export-Import Bank credit to Turkey

The Turkish Government desires a credit of 8 million dollars from the Export-Import Bank to finance the remodelling of surplus ships which it is purchasing from the Maritime Commission. In view of the small size of this proposed credit, no objection has been raised in the Staff Committee.

2. Guarantees for private American investment under the European Recovery Program

The Staff Committee has agreed that there is no need to give the Administrator of the European Recovery Program any general authority to extend guarantees to private persons. It is divided, however, on the question of whether the Administrator should be granted any special guarantee powers with respect to direct investments made by American business enterprises as an integral part of the European Recovery Program. The State and Commerce Departments and the Export-Import Bank are opposed to including any such provision in the ERP legislation, although they suggest that study should be given to the general problem of government guarantees for private investment abroad (Commerce Department seems to be inclined favorably toward some such general system of guarantees).

However, I am joining with the Treasury Department in recommending that the Administrator be given limited authority to guarantee the recovery of dollars invested by American companies in restoring or expanding their existing direct investments in "Marshall Plan" countries, provided that such restoration or expansion would constitute part of the recovery program of the country concerned, and that such guarantee is necessary to avoid discrimination against the American-controlled enterprise in the local government's administration of its recovery program. Such a guarantee would not cover ordinary business risks, but would simply guarantee to transfer into dollars of local currency derived from the investment, whether through earnings from or sale of the properties (including sale to the local government in case of nationalization) up to the amount of the initial dollar investment. It would further be provided that the aggregate amount of such guarantees would be limited to 5 per cent of the funds authorized for the European Recovery Program (say 300 million dollars for the first year).

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While I am not very happy about extending any guarantees for private investment abroad, I think it may be necessary for political reasons to avoid the charge that we are ignoring the interests of American companies and lending money to foreign governments to carry out investment projects which would squeeze out existing American enterprises in the countries concerned. (I have just received from you Milo Perkins' letter enclosing a statement by Congressman Dirksen concerning guarantees to private American investment under the "Marshall plan". Mr. Dirksen's proposal is much broader than the one put forward above, since it would guarantee the transfer into dollars of earnings on the investment as well as recovery of the initial capital invested, and since it would cover new investments in addition to the restoration or expansion of old ones. It further calls for the collection of an "insurance premium" on such guarantees which Mr. Dirksen suggests might be one or two per cent. I shall offer you further comments on this proposal, but my first reaction would be that the more limited suggestion made above is the absolute maximum that I would recommend.)

3. U.S. Assistance to "Marshall Plan" countries in mobilization of their private dollar assets in the United States

There may be some two or three hundred million dollars of blocked assets in the United States held by residents of "Marshall Plan" countries (especially France) which, while known to this Government, are not known to the foreign governments concerned. These assets remain blocked because under our unblocking procedures the private owners must obtain certification from their government that no enemy interest is involved; this they are naturally unwilling to do. The question has arisen of whether the United States should reveal to the foreign governments concerned the names and holdings of these foreign private owners. While such action could not be taken on the basis of the previous census of blocked assets (since assurance was given by the Treasury that the results of this census would be kept confidential) a new census could be taken with or without specific Congressional approval of its purpose.

✓ The argument for disclosure of these assets is, of course, that it would enable the foreign countries concerned to make more effective use of their dollar resources and hence to reduce the required amount of U.S. aid. The principal argument against such action is that it would violate traditional banking secrecy and would put the United States in the position of helping foreign countries to invade private property rights. Some people are worried about the fact that as a minimum the foreign owners would be given inadequate compensation for their dollar holdings because of the over-valued exchange rates in European countries and that they might become subject to very severe penalties as a result of the U.S. action.

While this subject has received some preliminary discussion in the Staff Committee, the Treasury Department has not yet presented a paper

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on the subject as it has promised to do. I understand that Secretary Snyder was responsible for putting the matter on the N.A.C. agenda today and that all he expects to get is a preliminary discussion of this very complicated and controversial question. Pending receipt of the promised Treasury paper, I have not focused on this question in detail, but I have from time to time suggested to the Treasury that they consider very seriously whether there is not some middle way which would both avoid the outright disclosure of these hidden assets to the governments concerned but would at the same time assure the use of these funds to those governments. I had in mind an arrangement under which the foreign holders would be required to lend their dollar holdings to the U.S. Government (possibly the Export-Import Bank) for relending to the foreign governments. This idea may be half-baked, but I think it deserves careful study before any final action is taken.

You may recall that Mr. Sproul recently sent you a copy of a letter which he had written to Secretary Snyder expressing the view that some way had to be found to make these hidden foreign assets available to the foreign governments. He was not able, however, to present any definite plan for accomplishing this purpose which would avoid the ticklish question of actually disclosing information to the foreign governments concerning the holdings of their nationals.

4. Proposed Export-Import Bank credit to Belgium

(To be covered by a separate memorandum)