

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 28, 1947

To Chairman Eccles

Subject: _____

From Mr. Knapp



You will recall that at a recent meeting of the National Advisory Council the N.A.C. approved a list of specific uses which might be made by foreign governments of local currency deposits made by them in connection with grants furnished under the European Recovery Program. You emphasized, however, that account should be taken of the general criterion of treating these local currency funds in such manner as would best promote currency stabilization, whether from the inflationary or the deflationary point of view. I understood that the Council adopted this view as a result of the discussion in the meeting although no language was formulated to cover the point.

I have since had considerable difficulty in getting this idea accepted and written into the documents which are to be presented to Congress. However, I think I have finally succeeded, and should like to report the following:

- (1) The actual legislation as presently drafted will provide simply that the local currency deposits shall be used "only for such purposes as may be agreed to between the recipient country and the Government of the United States";
- (2) However, the draft bilateral agreement to be signed between the recipient country and the United States (this agreement will be exhibited to the Congress during the course of the hearings) provides that these local currency funds

"shall be held or used by the Government of _____ in such manner as will most effectively promote the stabilization of its currency. Such funds may be used only for the following purposes and provided that such use is not significantly inconsistent with the foregoing general objective." (There follows the list of specific uses covering retirement of the national debt, costs incident to the development of strategic material output, local currency costs in connection with International Bank projects, and "such other purposes as are mutually agreed by the Government of _____ and the Government of the United States".)