

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 6, 1948

To Chairman Eccles

Subject: National Advisory Council

From Mr. Knapp

meeting today

Supplementing my memorandum of yesterday's date, I should like to offer the following comments on the remaining items on today's National Advisory Council agenda.

1. United States assistance in tracing foreign private dollar assets in the U.S.

The problem here is what the U.S. should do to help foreign countries locate blocked assets held in the United States by their nationals which are known to us but have so far been hidden from the foreign governments concerned. Many European countries (France is the best example) have ordered their nationals to declare and deliver their dollar assets, but in some cases there has been widespread disregard for such orders. On the other hand, the Treasury will unblock European-owned dollar assets only upon certification by the government concerned that no enemy interest is involved. As a result, many of the holders seem inclined to leave their assets in the United States blocked indefinitely.

The Treasury is anxious to wind up Foreign Funds Control and proposes in the near future to transfer its jurisdiction over the remaining blocked accounts to the Alien Property Custodian, now in the Department of Justice. There has been some thought that the Alien Property Custodian might proceed to vest as presumed enemy property all remaining blocked accounts, which would "smoke out" genuine allied holders who were simply hiding their assets from their governments. However, it appears that the Alien Property Custodian doubts its legal powers to take such action so that it might continue to sit indefinitely on these blocked assets.

Aside from the administrative problem, it is clear that the interests of the United States would be served by revealing to the foreign governments concerned the blocked accounts held by their nationals here, since this would enable them to mobilize their dollar resources more fully. On the other hand, this would mean a sharp departure from previous American respect for private property rights, and such action by the United States would render many foreigners subject to extreme penalties in their home countries. This latter point of view is emphasized by the New York bankers who say that many of the holders of these hidden assets are patriotic citizens who will be glad to yield up their dollars when sound (non-socialist) governments are restored in their home countries.

Obviously this is a very prickly problem, and the Treasury has definitely decided not to take any action on it without consultation with

Congress. The Treasury does feel, however, that some recommendation should be made to the Congress, preferably with the approval of the N.A.C., and I believe it will today propose a recommendation to the effect that the U.S. should disclose to foreign governments participating in the European Recovery Program the blocked assets held by their nationals in the United States.

This matter has received a considerable amount of discussion in the N.A.C. Staff Committee, but through pressure of other business has not been pursued to a definite conclusion. In fact, most of the other agencies have really tried to duck the issue and have left the matter to Treasury and ourselves.

On our part, we have discussed this matter with the New York Bank in our Staff Group on Foreign Interests and have had the benefit of Mr. Sproul's letter to Secretary Snyder on the subject (copy sent to you by Mr. Sproul on October 22, 1947). In general, the Federal Reserve staff people agree with Mr. Sproul's position that (1) these blocked dollar assets should somehow be put at the disposal of the foreign countries concerned, but that (2) if possible, we should not reveal information concerning the identity of the holders or, if forced to this action, should seek to have them granted some kind of an amnesty. In an attempt to reconcile these objectives, we have spent a considerable amount of time in exploring "trick schemes" which would make the assets available to the foreign governments without revealing the identity of the holders. However, we have been unable to convince the Treasury of the feasibility of any of these schemes. Personally I do not believe that the Treasury has given adequate study to such compromise proposals^{1/} but they feel strongly that they should go ahead with a recommendation for disclosure.

Under the circumstances, I would recommend acceptance of this proposal subject to suitable arrangements being made for amnesties in the foreign countries concerned. It appears that most of the foreign governments concerned would be quite willing to grant such amnesties as a price for U.S. cooperation.

2. Estimates of aid required for first fifteen months of European Recovery Program

The National Advisory Council will be asked this afternoon to endorse the work of the interdepartmental expert committees which have worked on the E.R.P. estimates in the following terms:

^{1/} I have just been informed that the International Bank will put forward some kind of a compromise proposal at this afternoon's meeting.

"The National Advisory Council is satisfied that these procedures (i.e. the procedures followed by the committees) are sound, and has concluded that the recommended amount (i.e. 6.8 billion dollars for the fifteen months ending June 30, 1949) is needed to achieve the objectives of the Program."

I fully appreciate the difficulty which you will find in joining in such an action in view of the present state of your knowledge concerning this technical work. However, I should like to give you the following explanation of the basic assumptions and methods by which this figure has been derived.

The basic assumptions have been:

- (1) That the countries concerned will use their best efforts to maximize their own production and to direct it toward meeting their essential needs;
- (2) That the intended levels of consumption (standard of living) will be no higher than required to avoid social unrest and to offer adequate incentives to the working population; and
- (3) That the investment programs will be appropriately designed to increase productivity and to restore the economies to a self-supporting basis by the end of the recovery period.

Account has also been taken of the availability of supplies for Europe.

On this basis, a calculation has been made of the balance of payments deficit of each country. Next it has been assumed that the European countries can find ways and means to meet their deficit with the world outside the Western Hemisphere (except to a limited extent in the case of Germany).

The final calculation on the need for United States assistance is as follows:

15 months
 April 1, 1948 to June 30, 1949
 (in millions of dollars)

| | |
|---|------------|
| Deficit with Western Hemisphere | 8,527 |
| Portion of German deficit with Eastern Hemisphere | <u>200</u> |
| Total to be financed | 8,727 |

Means of financing

| | |
|--|------------------------|
| (1) From sources other than new U.S. Government assistance | |
| (a) International Bank and other sources in U.S. | 500 ^{1/} |
| (b) Credits from other Western Hemisphere countries | 700 ^{2/} |
| (c) Payments in cash | <u>85^{3/}</u> |
| Subtotal | 1,285 |
| (2) From new U.S. Government assistance | |
| (a) for procurement in U.S. | 4,627 |
| (b) for procurement in other Western Hemisphere | 2,615 |
| (c) for German procurement in Eastern Hemisphere | <u>200</u> |
| Subtotal | 7,442 |
| Total financing | 8,727 |

1/ My own breakdown of this figure is as follows: International Bank 300 million; unutilized balances of previous Export-Import Bank credits 140 million; private investment 60 million.

2/ My own breakdown is 350 million for Canada and 350 million for Latin America (mainly Argentina).

3/ Deficit of Portugal. Two other countries, Turkey and Switzerland, are not expected to have a deficit with the Western Hemisphere, and hence they also will not be receiving aid.

It is proposed that the total amount of U.S. Government assistance for this period be provided as follows: 822 million dollars by appropriation to the Department of the Army for German disease and unrest imports, and 6.6 billion dollars by appropriation to the new E.R.P. agency (which will cover

German requirements over and above disease and unrest imports). The final figure of 6.8 billion dollars requested for the new E.R.P. agency includes 200 million dollars to be spent prior to June 30, 1949 for goods which will be delivered only after that date.

You will understand, of course, that estimates of this character involve a large degree of personal judgment and conjecture even when—as in the present case—an immense amount of energy and manpower has been used in their detailed development. Neither you nor any other member of the N.A.C. could possibly be expected to have examined these estimates in detail, so that in effect what the Council is necessarily asked to do is to give a vote of confidence to the Staff work.

3. Report to the Congress by the National Advisory Council

The Staff Committee has discussed the general proposals which you made at the last N.A.C. meeting concerning the production of an N.A.C. report to the Congress containing a more analytic statement of our foreign financial policies and a more constructive discussion, with recommendations, of future policy. We have borne in mind two considerations: (1) that it is very difficult to write such a statement at the present time until the Congressional attitude toward the E.R.P. has become clarified, and (2) that we are bound in any case to present the Congress during the next six months with a comprehensive report containing a review of the International Fund and Bank activities to date, appraisal of their contribution to the interests of the United States and the world, and recommendations as to how they may be made more effective.

In view of the immense long-term importance of the Fund and the Bank to our foreign financial policy, we have decided to recommend to the Council that the over-all statement of our foreign financial policy be combined with our report on the Fund and the Bank, and that this report be scheduled for production around March or April of this year.