

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 19, 1948

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Knapp

SECRET

I have just been informed that the National Advisory Council will meet this afternoon at 4:15 in Executive Session (members and alternates) to consider the problem of the French exchange rate.

Frank Southard has given me the following report of developments over the weekend on this matter. On Saturday Mr. Overby informed the French Executive Director in the Fund that the U.S. Government could not accept the French proposal for a "floating rate" on the U.S. dollar. The French have shown great distress at this decision and M. Mendes-France, who arrived from Paris on Saturday, met with Secretary Snyder yesterday to explain the French proposal and the reasons why they felt that it had to be followed through. I understand that Secretary Snyder expressed no further views, but it was agreed that the French should submit their proposal to the International Monetary Fund today for discussion by the Fund's Board of Directors.

The New York Times on Saturday reported that the British Government had accepted the French proposal, but Secretary Snyder has received a cable from Sir Stafford Cripps informing him that on the contrary the British were very much opposed to it. I have no further information as to the attitude which the other countries in the Fund are taking, but it appears that the Fund's staff (Eddie Bernstein) has prepared a memorandum opposing (or at least severely criticizing) the French proposal.

Mr. Southard and I have discussed one possible line of compromise which would be to allow the French to adopt a "floating rate" on the dollar for purposes of capital and service transactions, but not for trade transactions. Under such a scheme, French importers from the dollar area would obtain exchange from the government at the official rate of, say, 214 francs to the dollar rather than being forced to purchase dollars at a premium in the open market. But if this demand is removed from the market, the premium which is assumed to be necessary to induce offerings of "tourist dollars" and "capital dollars" could be created only by government purchases. I am very doubtful whether the French Government could accept this proposal; it would reduce the "open market" to a sham since it would obviously become merely a channel through which the government was paying bonuses to certain holders of dollars.