

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 22, 1948

To Chairman Eccles

Subject: National Advisory Council

From Mr. Knapp

meeting today.

I should like to offer the following comments concerning the items on today's National Advisory Council agenda.

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

I think you are now familiar with the general nature of this problem which was summarized in my memorandum to you of January 6. The question is what action the U.S. Government can and should take to help countries participating in the European Recovery Program to locate hidden blocked assets held in the United States by their nationals.

The Treasury and Justice Departments have now agreed upon a program which would be placed before the Congressional committees and, in the absence of Congressional objections, would be put into effect without legislation. The other N.A.C. agencies have not really participated in the preparation of this program, although it has received considerable discussion in the Staff Committee. This is one case in which I must simply decline to take responsibility for the recommendation. I am not satisfied with it, but have been unable to spare the time and energy from other tasks to produce anything better. I should like, however, to recommend one amendment to the action, which is referred to below.

The Treasury-Justice program may be summarized as follows:

(1) Public notice would shortly be given that within three months all remaining blocked assets would be transferred to the jurisdiction of the Office of Alien Property in the Justice Department (except that all blocked accounts valued at less than \$5,000 would be automatically released).

(2) When the Office of Alien Property takes over it would take a census of the blocked assets transferred to its jurisdiction and would disclose to the European governments scheduled to receive aid under the European Recovery Program full information concerning such blocked assets held by their nationals.

(3) The foreign governments would undertake to ascertain whether any of these blocked assets represented in fact enemy interests, in which case they would be vested (i.e., taken over without compensation in the name of the United States) by the Office of Alien Property. The rest would be released by the Office of Alien Property at the request of the foreign government.

(4) The action to be taken under (2) and (3) above would not be applied to Swiss assets since Switzerland is not scheduled to receive ERP assistance. However, the "Swiss assets" are believed to include a substantial amount of property held by Swiss banks and others for the account of nationals of France and other Western European countries. In order to "smoke out" these latter assets, it is proposed that the Office of Alien Property proceed to vest the remaining blocked Swiss assets on the presumption that an enemy interest is involved. It is believed that such action would force the French or other holders of assets through Switzerland to make themselves known to this Government and to their own governments.

My basic reservation concerning this program is my feeling that, with more study, an alternative program could be developed which would accomplish substantially the same results without necessitating the drastic step of disclosing information to foreign governments. The International Bank came up with a half-baked compromise proposal along these lines, but I agree with the Treasury and Justice Departments that the Bank's proposal is not workable.

Under the circumstances I would only like to suggest that in approving this program the Council express its opinion that so far as possible steps should be taken by this Government to assure that foreign governments which obtain control over the dollar assets of their nationals through action by the United States should not inflict extreme and unreasonable penalties upon such nationals for their non-compliance with the countries' foreign exchange laws. I have prepared appropriate language on this matter for insertion in the proposed Council action, which can be presented at the meeting if you approve.

## 2. Distribution of U.S. grants and loans among ERP countries

The Department of State believes that the Congress must be given a tentative distribution of ERP grants and loans by countries, and the Staff Committee has done its best to produce a table on this subject.

Guided by the general conception of capacity to pay, and taking into account other past and future dollar obligations of the countries concerned, it has arrived at these tentative conclusions:

- (a) Sweden, Ireland, and Iceland—all loans and no grants.
- (b) Belgium, Luxemburg, and Norway--85 per cent loans and 15 per cent grants.
- (c) United Kingdom, Netherlands, and Denmark--20 per cent loans and 80 per cent grants.

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(d) France and Italy—10 per cent loans and 90 per cent grants.

(e) Greece and Austria—100 per cent grants.

These proportions were arrived at by considering the share which the countries concerned might reasonably be expected to take in the form of loans over the full four-year period of the European Recovery Program. The proportions were then applied to the amount of aid scheduled for the first 15-month period. The result is that the 6.6 billion dollars of aid during this period is tentatively assigned 20 per cent to loans and 80 per cent to grants. You will recall that in addition the Department of the Army will be spending 822 million dollars of appropriated funds for disease and unrest imports into Germany, which must also be classified as grants.

As I have previously explained, the estimate that the proportion of loans might run as high as 40 per cent was based on the assumption that anything over 20 per cent would consist of "contingent loans" or "recoverable grants" which would bear contingent terms of repayment comparable to those adopted with respect to interest on the British loan. Unfortunately, Mr. Douglas, Mr. Snyder, and Mr. Harriman have all failed to make this point clear in their testimony before Congressional committees, and in fact have almost committed themselves to the proposition that loans made under the Program should all be "good loans". Despite this record, the Staff Committee feels that it is only common sense to put some aid on a contingent repayment basis since if everything over and above the "good loans" was given as an outright grant the United States might be depriving itself of possible repayments from countries whose future balance of payments position turns out to be better than now anticipated. Accordingly, it is suggested that in the table to be presented to Congress the column showing the figures for grants to each country (totaling 80 per cent of the aid program) be footnoted as follows:

"Some part of these amounts might take the form of loans on a contingent repayment basis letting the amount of each year's payments depend upon some measure of the country's ability to repay. Such a measure might be based upon the level of exports the country develops and perhaps on the availability of dollars with which to make repayment. This would be worked out in such a way as to assure the collection of the largest amount in repayment which would be consistent with the long run objectives of the program. The total amount which might reasonably be advanced on a contingent basis could amount to 20 per cent of the total appropriated."

I imagine that the question of whether or not any reference should be made to contingent repayment terms will be the principal subject of the Council's discussion on this paper.