BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 4, 1948

To Chairman Eccles

Subject:

From Mr. Knapp

JBK

It is my understanding that you are not attending the Council meeting this afternoon, but for the sake of the record I thought it best to send you the attached brief memorandum. I have spent a good part of the morning discussing these matters in detail with Governor Szymczak.

Attachment

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Office Correspondence

Date February 4, 1948

To Chairman Eccles

From Mr. Knapp

Subject: National Advisory Council meeting today.

The following matters are on the National Advisory Council agenda for this afternoon:

1. Aid to China

The National Advisory Council is being asked to state that in its opinion the State Department's proposed economic assistance program for China "would provide China with such amounts of imports as would under favorable circumstances and together with appropriate measures of self-help enable China to retard economic deterioration".

This is not an economic recovery program; it is merely stopgap assistance required to prevent complete economic collapse. China has been averting such collapse by importing minimum amounts of food, petroleum, cotton, etc., and has been incurring a balance of payments deficit of around 30 million dollars a month, which has been met mainly through drafts upon gold and dollar reserves. These reserves are now down to about 200 million dollars, and the trickle of imports would be choked off in the absence of an emergency aid program.

The State Department proposes to meet this situation through an appropriation of 510 million dollars for the 18 months ending June 30, 1949. In addition, 60 million dollars is being asked to finance a few minor reconstruction projects, such as repairs to railroads, but again this is merely a stopgap measure. In general, the conditions to be imposed upon China in connection with the aid program are the same as those contained in the European Recovery Program, and it is provided in the legislation that as soon as the Administrator for ERP takes office he shall take over the administration of the Chinese program as well. While it is expected that this aid to China will be entirely on a grant basis, the legislation leaves this to the determination of the Administrator in consultation with the National Advisory Council. There is the usual provision about the deposit of local currency equivalent to grants-in-aid, although in the Chinese situation it is recognized that this may be largely an empty gesture.

The Chinese Government has requested a 250 million dollar loan for currency stabilization purposes, but this request has been rejected as obviously impracticable under present conditions. As you know, the Chinese Government is running a huge budgetary deficit as a result of military expenditures financed directly by the printing press, and there is no present hope of economic or financial stabilization in China. The most that can be said for the present program is that it might leave the door open for a genuine recovery program later on if some settlement of the civil war is achieved.

2. <u>Exchange rate for the Yugoslav dinar</u>

Yugoslavia has now indicated its desire to establish its existing official exchange rate as the official parity for purposes of the International Monetary Fund. This exchange rate appears to be well suited to conditions in Yugoslavia, and there are no reasonable grounds for objecting to it. It is therefore being recommended that the Council authorize the U.S. Executive Director to accept it.

It should be recognized that when this action is taken, and when Yugoslavia makes its required contribution to the Fund, it will be eligible to draw upon the Fund's resources. This may create an awkward problem, especially in view of our strained political relations with Yugoslavia. It is felt, however, that this problem must be handled on its merits when it arises. It would be unworthy for us to raise unjustifiable objections to the exchange rate in order to prevent Yugoslavia from having access to the Fund.