

SECRET

June 23, 1948

Chairman McCabe

Today's NAC meeting

Lewis N. Dembits

In addition to the matter of the Japanese Exchange Rate and the matter of the number of Executive Directors of the International Fund and Bank, a third item has been added to the agenda for this afternoon's NAC meeting as follows:

Exchange rate for French local currency account for the third calendar quarter of 1948

When ECA makes grants to a country that does not have a single definite rate of exchange, it is necessary for the Administrator, after consultation with the NAC, to determine how much local currency should be deposited for each dollar of grants received. When the Council considered this subject on May 27, two alternatives in the case of France were discussed:

(1) To use the average selling rate which is applicable generally to the providing of dollars to French importers, now about 260 francs to the dollar; or

(2) To use the "official" selling rate of about 214 francs to the dollar, which (as a measure of price subsidization in France) is currently available to importers of certain basic commodities; this rate would be applicable to imports of these basic commodities, while the rate of about 260 would be applicable to other imports.

There seemed to be a fairly strong case for the uniform application of the 260 rate, since this is clearly the "realistic" rate. To the extent that France imports basic commodities from the dollar area and sells them locally for francs on the basis of a rate of 214 or less, this constitutes the selling of the goods on a subsidized basis. If France had to make deposits in the special account at the 260 rate, she would have to find some means of raising the extra francs (above the 214 francs received from the sale of the goods) in order to make the deposits at the 260 rate. If the U. S. permits deposits at a rate of 214 instead of 260, we are in effect financing the subsidy by relieving France of the need of depositing the full value of the goods in the account.

On the other hand, at the Council meeting of May 27, the State Department made a strong case for permitting deposits at the 214 rate, on the ground that to impose suddenly a requirement of the 260 rate would cause undue financial dislocation in France. After discussion, the Council agreed that for grants received during April-June 1948, France might deposit on the basis of the second alternative outlined above, using the 214 rate for basic commodities. It was agreed that the matter would be reviewed later for the July-September quarter.

Because it has not yet been possible to work out a satisfactory alternative, the Staff Committee is now recommending that the basis used for the April-June quarter be continued for another three months. I feel that the permitting of deposits at the 214 rate is undesirable because it seems to reward France for subsidizing certain imports by means of a multiple exchange rate; other countries, where they subsidize the sale of imported goods, must make deposits at the full rate and must arrange to raise from domestic sources the amount of the subsidy. However, under present circumstances, I would recommend that you approve the continuation of the present basis in France for another three months.

LND/ec