

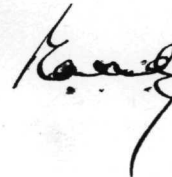
W. RANDOLPH BURGESS
55 WALL STREET
NEW YORK 15, N. Y.

April 8, 1948.

Dear Marriner:

At the last meeting of the Advisory Council we had some discussion of the question of dealing with foreign funds in this market, and you suggested, I think, the desirability of the banks trying to work out an alternative proposal to the rather unsatisfactory plan now in effect. We have been sweating over this matter, and the result of our labors is set forth in the attached letter to Secretary Snyder. I think it has a good deal of merit.

Sincerely yours,



Honorable Marriner S. Eccles,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

W. Randolph Burgess
55 Wall Street
New York, N. Y.

April 8, 1948

Dear Mr. Secretary:

Now that the Foreign Assistance Act of 1948 has become law and broad policies determined, it seems to me and some others with whom I have discussed the matter that the way has been opened for a more effective and practicable method of bringing about the utilization in the European Recovery Program of the assets in this country of foreign nationals which are now blocked.

The Foreign Assistance Act requires each participating country to enter into an agreement with this country as a condition of participation. The Congress has decided that that agreement should include an undertaking by each country as far as practicable to locate and make use of the funds of its nationals in this country. The Senate report on the bill appears to indicate that this refers to funds now blocked.

We all recognize that the present plan embodied in Executive Order 8389 has certain serious defects both as to its ineffectiveness in bringing out the money, and its violation of certain aspects of the rights of private property.

This subject has, I know, been considered at length by the Treasury and by the National Advisory Council, but it seems to us the passage of the Act puts a new face on the matter and opens the way to consideration of new plans.

One plan that you have considered is an offering to foreign nationals of bonds of the International Bank, and this has been rejected for reasons I understand.

My associates and I have, therefore, been canvassing other means which might be effective in attracting foreign funds into use, and so saving the American taxpayer without any breach of principle. Some precedent for a procedure is to be found in the loan which the R.F.C. made to England, collateralized by the property of British nationals.

A Proposed Plan

Under the Foreign Assistance Act the Export-Import Bank is authorized to lend one billion dollars to participating countries. I wish to suggest a means by which this loan might be partly secured by collateral turned in by foreign nationals having assets now in blocked account. The suggested procedure to this end would be as follows:

(1) That the foreign government concerned offer its nationals having funds here amnesty from taxation or legal prosecution if they will, first, liquidate twenty-five per cent of their blocked assets and remit that

amount, through an appropriate agent, to the foreign government; and, second, lend the balance of the assets to their government, to be pledged with the Export-Import Bank as collateral for a loan to their country.

(2) The country concerned would undertake first to return the collateral to its national when that country will have repaid its loan from the Export-Import Bank; and second, would undertake at any time during the duration of the loan, on request of the individual, to take over the collateral and give the national the market value of the collateral in local currency of the country at the rate of exchange prevailing at that time. Whether the collateral should then be liquidated or left pledged is a matter to be determined between the country concerned and the Export-Import Bank.

It seems to me possibly to carry through this arrangement without revealing the identity of the national whose assets are pledged in this fashion, and I know of no reason why the arrangement could not be handled through the Export-Import Bank. It would have the advantage of making immediately available in cash 25% of blocked assets tendered, and of giving the Export-Import Bank a certain amount of collateral back of loans which it is authorized to make under the Foreign Assistance Act.

We have discussed this plan with a number of Europeans, and believe it is sufficiently attractive to bring about a considerable tendering of blocked assets. The plan would offer an inducement to the holder of blocked funds to adhere for (1) he could maintain his claim to dollars; (2) he could convert into local currency at any time he felt the rate to be favorable; and (3) he would not have to disclose to his government the dollar assets held in the United States.

Since this plan would rest on voluntary compliance instead of force it would avoid the difficulty of the United States acting as policeman and would avoid the violation of principles of the protection of private property rights.

I have reviewed this proposal with Allan Sproul and a number of bankers here and find substantial concurrence. Some of our people who have reviewed the techniques involved are of course available for further discussion.

Sincerely yours,

(Signed) Randolph

Honorable John W. Snyder
Secretary of the Treasury
Washington, D. C.

cc: Stenger (State), Knapp (FR), Arey (Ex-Im), Blau (Commerce), Tirana (ECA)
Louchheim (SEC), Luthringer (Fund), Hooker (Bank, Carre (OFIC), and
Hilken (OAP)