William McChesney Martin, Jr., Papers

Box 20/Folder 4

Series V, Subseries A

FRB Overseas Correspondence, 1960-67

Airmail

November 15, 1960.

Dear Kim:

Thank you very much for sending me the report of the meeting in Basle and keeping me posted on developments. This is very helpful and I have given both Secretary Anderson and Al Hayes a copy. I think you can depend on them to keep it strictly private and confidential.

With all good wishes,

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

The Honorable Cameron F. Cobbold,
Governor,
Bank of England,
London, England.

WMM:mnm

SECRET

Bank of England

9th November 1960.

My dear Bill,

I had some talk with the other European Governors in Basle over the weekend about the gold market and all that. Parsons did the enclosed note, which has been approved as a correct record by all who were present. I thought you would be interested to see it, and Dr.Holtrop and my other colleagues concurred.

I found several of them very much bothered about all this, both on merits and because they did not quite understand what was going on. I think that our talks at least served to clarify their minds and to some extent, therefore, to calm them but there is no doubt that keen anxiety will persist so long as the gold price in European markets continues at a premium. I hope that I have correctly interpreted your attitude where I referred to it.

I shall be grateful if you will let Al Hayes have a copy of this letter and enclosure. You may also care to inform Secretary Anderson, as I have informed the Chancellor. Apart from this I think the closer it is kept the better.

Yours sincerely,

C. Cobbold

Mr.Wm.McC.Martin, Jr.

COPY

SECRET

An informal meeting of central-bank governors who are Board members of the B.I.S. was held on 6th November to discuss recent developments in the gold market.

Present:

Dr.Holtrop
Mr.Asbrink
M. Ansiaux
Dr.Baffi
Herr Blessing
M. Brunet
Mr.Cobbold
Dr.Schwegler.

Also present by invitation:

M. Guindey
Mr.Parsons.

Dr.Holtrop introduced the subject and stressed the interest and involvement of all present in the matter. They had watched with concern the movements in the London gold price and they had read of the contacts between the Bank of England and the U.S. authorities. He asked the Governor of the Bank of England whether he would be willing to explain what had been happening and what policy was governing action in London. He also asked whether they could be given an indication of the size of the market and the ultimate destination of the gold which was bought.

Mr.Cobbold explained the history of developments since about the end of August. He mentioned the normal speculation apt to precede the I.M.F./I.B.R.D. meeting; this year the speculative attention had focused on gold. There were also the uncertainties surrounding the U.S. balance of payments and elections. All these had contributed to an increased demand for gold by non-central-bank buyers. This, superimposed on a fairly active central-bank demand at that period, had led to a strong upward pressure on the London price, which by mid-September had reached about $35.25. At this point the Bank of England had discussed the matter with the U.S. authorities in Washington, and had found a tendency on their part to suggest that the market should be left to manage itself without too much active intervention by the Bank of England. Shortly afterwards, in spite of the fact that central-bank buying had ceased, and in spite of continued attempts by the Bank of England to moderate the increase, the London price rose to about $40 on a very substantial increase in private demand. Mr.Parsons had then gone to Washington at the suggestion of the U.S. authorities, and discussions led to complete agreement as to how the situation should be handled. Broadly speaking, the U.S. authorities recognise that the objective should be to keep the price as low as possible, while economising as much as possible in sales of gold out of reserves. The Bank of England was carrying on its usual policy, endeavouring to keep the London market as orderly as possible, and ear-marking in New York in accordance with normal practice. The Bank had undertaken to keep in close touch with the U.S. authorities as to the size and scope of the market and of their operations. The ultimate objective was to bring the price back to within easy range of $35 as soon as this could be achieved. At the present time, however, it seemed that the feasible floor is somewhere in the region of $36, as a very substantial additional demand appeared as soon as the price fell much below that figure.

Mr.Cobbold added that as far as he was concerned he thought that in the short term European central banks would be unwise to think of reaching any formal agreements among themselves on this subject. Such agreements might create new difficulties, particularly if they became known, and his impression was that they would not be welcomed by the United States. He thought the central banks should continue to behave as they had been doing, and carry on with their normal policy with due self-restraint. In addition he thought that central banks generally should take every opportunity of saying, when asked, that the buying of gold at high prices is a nonsense and that they consider the devaluation rumours absurd.

After some discussion about the size of the market and the origin of the demand, the Governor of the Bank of France said that he and his government are deeply concerned about what has been happening in London. France has a national gold market and London an international one, but the Paris market could not fail to be affected by the developments in the London market. So long as the price remains above $35 the situation looks unstable, and there is a constant danger of its getting out of hand. He suggested therefore that the European central banks should consider entering into a joint venture to sell gold in London in order to bring the price down to about $35. This would also involve joint discussion of policy from time to time. Mr.Cobbold commented that he felt strongly that such a joint operation could only be contemplated if the U.S. authorities themselves were to take an initiative in such operations; otherwise Europe would appear to be taking over the responsibility of supporting the U.S. dollar price for gold in London. At some stage the European central banks might well find the burden too heavy: the result of starting on such a course and then being unable or unwilling to continue would be disastrous.

The President of the Swiss National Bank said he shared M. Brunet's worries about the present situation, which in his view cast doubt on the value of all currencies. He would therefore like to see the dollar price for gold in London back at its normal level as soon as possible. Dr.Holtrop, supported by the Governor of the National Bank of Belgium, said he was content with the way the matter was being handled in London. He added that he thought the Dutch authorities had taken the best course in forbidding their nationals to hold gold either at home or abroad.

The President of the Deutsche Bundesbank explained that he is in a delicate position. His policy had been to hold reserves 50 per cent. in gold and 50 per cent. in exchange. At the moment, owing to a large inflow of hot money in recent months, his gold holding is down to 43 per cent. He had been reluctant to earmark the full 50 per cent. of accruals to reserves in present circumstances, but strictly speaking he ought to earmark another $500 million. He confirmed that he became more uneasy in this regard as the market price rose. He too thought that the short-term situation is being handled in the best way.

It was generally agreed that the Governors should be kept informed of developments, and that the subject might need further review in the near future. In the meantime all the Governors expressed general agreement with the way the matter is being handled in the London market at the present moment, although they all felt that the situation presented dangers and needed to be watched from day to day.

It was also generally felt that, in present circumstances, even if the London price were to fall to, or near to, parity, it would be preferable for European central banks not to buy gold in London without first notification to the Bank of England. If any central bank needed to sell gold to acquire exchange, there could be no objection to their selling in London, thereby reducing the burden of support; in this case also it would be convenient if the Bank of England could be informed.

COPY

De Nederlandsche Bank N.V. Amsterdam

Private and confidential

November 11, 1960.

Mr. Wm. McChesney Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System,
Washington 25, D.C.

Dear Bill,

Now that the American people have made their crucial choice and Senator Kennedy has become with a surprising small majority the president-elect, we shall all have to prepare ourselves for the policy decisions the new Administration will take. Needless to say that we very much hope on this side that the statement Senator Kennedy made some ten days ago about the position of the Federal, will have indeed some intrinsic meaning and that the voice of you and your Board will be heeded in the process of framing monetary and financial policies of the new Government.

The reason that I am writing you is that I feel I must tell you that I have found, of late, more serious worrying about the political decisions that might be taken in the monetary field by a new Administration than I would have thought possible. Personally I must say that I had come back from the Fund/Bank meeting in a rather reassured state of mind about what might happen under a democratic Administration. It was not only my contacts with the Federal both in Washington and in New York that made me feel good, but also contacts with people like Eddy Bernstein. Rather to my surprise I find, however, that there are others in various responsible positions in Europe who feel less sure. In my opinion this need not at all be due to less confidence in American statesmanship, but may also be based on a difference in attitude towards some of the fundamental problems with which we are faced, viz. both the still existing disequilibrium in the balance of payments between America and Europe and secondly the problem of the price of gold. It is clear that someone who in his heart of hearts believes that rates of exchange tend to be governed by purchasing power parity, or who thinks that in the long run it is impossible to keep the price of gold stable, when the price of all other things goes up, has a greater tendency to believe that a new Administration might suddenly take radical policy decisions than someone, like myself, who rather tends to think that the determinants of the rate of exchange are so complex that it is no use to try to figure out a theoretical "correct" rate and that the price of gold is far more a convention than a free market phenomenon.

I thought it good to mention these considerations to you. They convinced me still more of the necessity that we central bankers should do some thorough work upon the long term prospects of our present international payments system.

From Cobbold you have heard about our discussions in Basle on the gold question. I know that Hayes intends to let Coombs pay a visit to Basle on the occasion of the December meeting. I think it will be extremely useful to have that kind of personal contact.

With kindest regards,

Yours sincerely,
(Signed) Marius

M. W. Holtrop

Airmail

November 15, 1960.

Dear Marius:

Thank you for your note. It is very helpful for you to keep us posted on these matters and I appreciate very much your taking the trouble to write.

This is going to be a difficult period but I am more confident than ever that we can handle it.

With all good wishes,

Cordially yours,

(Signed) Bill

Wm. McC. Martin, Jr.

Dr. M. W. Holtrop,
President,
De Nederlandsche Bank N.V.,
Amsterdam,
The Netherlands.

WMM:mnm

DE NEDERLANDSCHE BANK N.V.
PRESIDENT

AMSTERDAM, November 11, 1960

Private and confidential

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Chairman

Board of Governors of the
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W a s h i n g t o n 25, D.C.

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Yours sincerely,
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SECRET COPY

BANK OF ENGLAND, E.C.2.

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Yours sincerely,

(Sd.) C. F. COBBOLD

Mr.Wm.McC.Martin, Jr.

INTERNATIONAL MONETARY FUND

March 13, 1951

Mr. Martin

As per the attached note from Mr. Bernstein, I am forwarding his draft on Bank Eligible Bonds and U.S. Credit Policy.

Mr. Southard

INTERNATIONAL MONETARY FUND

Date 3/13/51

TO:

(1) Mr. Southard Room 926

(2) Room

(3) Room

I have promised Mr. Martin a copy of the attached--would you please send it on to him.

FROM E. M. Bernstein

Room 712B

RES

INTERNATIONAL MONETARY FUND

Research Department

Bank Eligible Bonds and U.S. Credit Policy

Prepared by E. M. Bernstein

March 13, 1951

One of the important problems in current credit policy is to encourage commercial banks to maintain or increase their investment in U.S. securities and thus to diminish the supply of funds for loans to individuals and business. A helpful and inexpensive technique for this purpose would be to increase the supply of securities of 10-year or longer maturity available for investment by banks.

1. Supply and Yield of Bank-Eligible Bonds

Beginning with maturities of June 1959, there are only two issues of Treasury bonds which are now eligible for bank investment--the 2-3/4s of December 1960-65 and the 2-1/2s of September 1967-72. All other issues of 8-year maturity or longer are still ineligible for purchase by commercial banks.

It would be expected that virtually all of the bank-eligible bonds would be held by the banks. This is the logical consequence of the differential between bank-eligible and bank-ineligible bonds. On March 9, 1951, the closing bid for the bank-eligible 2-1/2s of September 1967-72 was 102-4/32; the closing bid for the bank-ineligible 2-1/2s of June 1967-72 was 100-1/32. With such a difference in market price between bank-eligible and bank-ineligible bonds of nearly the same maturity, it would be expected that non-bank holders would dispose of their eligible bonds at the higher premium and acquire the ineligible bonds at the lower premium.

Of the $2.7 billion of this bank-eligible issue, only $72 million was held by certain mutual savings banks and insurance companies and $257 million by unclassified investors, including some commercial banks. The rest of the issue was held by reporting commercial banks, the U.S. Government investment accounts and Federal Reserve Banks. For practical purposes, bank-eligible bonds of late maturity may be regarded as virtually all held by commercial banks with the exception of the amounts held by the U.S. Government investment accounts and the Federal Reserve Banks.

The importance of this is that the bank demand for such bonds is so great as to absorb the whole of the issue. The premium is forced up to the point where bank demand is restrained--and the funds that would otherwise be invested in such bonds are used either for loans to business or are put into shorter-term U.S. Government paper. At the present time, when it is desirable to encourage banks to maintain or increase their holdings of government securities, there is not available for purchase by commercial banks the securities of preferred maturity and yield for which they already bid a substantial premium.

Nor will the supply of bank-eligible bonds be increased in the near future, unless steps are taken for this purpose. No outstanding issues of bonds now bank-ineligible will become bank-eligible until 1952. Beginning with May 5 of that year, rather substantial amounts will become eligible for purchase by commercial banks. Until then, the attempt to induce banks to hold a larger portfolio of government securities and a smaller portfolio of loans will be handicapped by the unavailability of bank-eligible bonds. As a matter of fact, the supply may become smaller during the coming year, as old issues mature and new ones do not yet become eligible for purchase by commercial banks.

2. Increasing the Supply of Bank Eligible Bonds

There are three ways in which the supply of bank-eligible bonds can be increased and greater progress made toward achieving the objective of halting or slowing down the sale of government securities by the banks.

At the end of November 1950, there were $1,683 million of bank eligible bonds held by the U.S. Gov ernment investment accounts and the Federal Reserve Banks. Some of these could be offered for sale, with or without acquiring an equivalent amount of other securities. Unfortunately, only $222 million of these securities are more than five years to their earliest call date and some of these issues are partially tax exempt. They do not constitute, therefore, a substantial addition to the bank-eligible securities for which satisfactory substitutes are not presently available.

A second method of increasing the supply of bank-eligible bonds would be to declare as eligible at once some or all of the issues that would normally become eligible at various times in 1952. This would have the effect of providing the banks, at lower prevailing prices, securities that would presumably cost more to acquire when they become bank-eligible bonds at a later date. There can hardly be any objection to increasing the privileges attached to an outstanding security (i.e., the privilege of being eligible for purchase by commercial banks). If there is any substantive objection to such a step, it must be that it is not desirable at this time to encourage the public to sell bonds, even if these bonds are to be added to the portfolios of commercial banks.

That would leave only one other means of increasing the supply of bank-eligible bonds--through new issues. The Treasury would have the alternative of new issues that meet the present eligibility requirements or new issues on terms outside the present requirements. On the whole, it might be preferable to offer a single new issue bearing 2 or 2¼ percent coupon, maturing in 12 years and callable after 8 years. This is close to the present yield for similar non-eligible bonds.

3. Effects on Bank Credit Policy

The reason banks are willing to liquidate some of their present holdings of government securities is that the return on loans is far greater than on the government securities they now hold. An increase in the supply of bank-eligible bonds yielding 2 or 2¼ percent would provide them with a government security which is very attractive as an alternative to loans to individuals. A nd it would provide this at a time when the banks are beginning to be concerned to maintain a better balance between their holdings of governments and their other loans and investments.

How would an increase in bank holdings of Treasury bonds be financed? Presumably, it would be largely done by reducing bank holdings of shorter-term issues. But there is no reason to assume that it would be done entirely in this way. A portfolio of government securities with a larger percentage of longer-term bonds would be more attractive than a portfolio with a smaller percentage of longer-term bonds. It may be assumed, therefore, that aggregate bank holdings of government securities would be somewhat greater than they would otherwise be. Some of the acquisition of longer-term bank eligible bonds would be in place of loans that banks would otherwise make.

If one purpose of credit policy is to encourage banks to maintain their investment in government securities, here is a way it can be done at very moderate cost. Because the issue is to be bank-eligible, at a yield somewhat less than bank-ineligible issues now bear, it would have almost no effect on the yield of the present restricted issues. The whole cost of the measure is the difference between the longer-term rate on a new issue of bank-eligible bonds and the lower rates on the short-term securities they would largely replace. At present, this difference is not very large--say $\frac{1}{4}$ to $\frac{1}{2}$ percent per annum. This difference would be paid only on the new issue of bank-eligible bonds--amounting perhaps to $2 billion or $3 billion.

Whatever the merit of the original concept that it is desirable to keep banks from lending to the government (a concept which assumes that lending by the banks to the government is additional and not in place of lending to private business), it is economically sound only if the Federal Reserve Banks are not accumulating government securities. Where the alternative to commercial bank holdings is enlarged Federal Reserve holdings, it is clearly better to induce the banks to maintain and even increase their investment in government securities. An improved supply of government securities for banks (and particularly a supplementary supply of bank-eligible bonds during the present year) would encourage more bank holdings of government securities and less bank loans with funds secured through the sale of government securities.

APPENDIX

The sharp change in the pattern of government securities held by the commercial banks is shown in the following table:

Bank Holdings of U.S. Securities by Call or Maturity

(Billion dollars)

	October 31, 1946	Percent	November 30, 1950	Percent
Due on first becoming callable				
Within 1 year	20.5	28.8	19.9	36.4
1 to 5 years	27.9	39.3	24.4	44.7
5 to 10 years	17.7	25.0	6.1	11.2
Over 10 years	4.8	6.9	4.2	7.7
	70.9	100.0	54.6	100.0

Source: Treasury Bulletin, January 1947, p. 49; February 1951, p. 37.

In October 1946, reporting commercial banks held 31.9 percent of their governments in securities more than 5 years to maturity or call (in fact, $2.5 billion was in securities more than 20 years to maturity or call). In November 1950, only 18.9 percent of the holdings of commercial banks were more than 5 years to maturity or call (and none of the holdings was more than 20 years to maturity or call).

The sales of government securities by banks, when they reduce their portfolios, are almost entirely of short maturities. This can be seen from a comparison of bank holdings on December 31, 1949 with their holdings on November 30, 1950. On the former date, reporting commercial banks held $59.8 billion in U. S. securities, of which $24.1 billion was due or callable within one year. On the latter date, reporting commercial banks held only $54.6 billion in U.S. securities, of which $19.9 billion was due or callable

HOTEL PLAZA-ATHÉNÉE
23 A 27, AVENUE MONTAIGNE
PARIS
Téléph { ÉLYSÉES 85-23 (Lignes groupées) BALZAC 43-30 (Lignes groupées)
Adresse Télégraphique : PLAZATENE-PARIS

August 27, 196?.

Dear Canby:

Have just arrived in Paris after a wonderful tour spending 3 days with our Ambassador, Doc Matthews, an old friend in Vienna, and a pleasant day in Luxembourg with their Prime Minister also an old friend. Have avoided all press so far and believe my travels largely unknown. Just finished a long luncheon with Baumgartner (only the two of us at his home) and also some other French inspectors of old school. Have kept trip on a tourist visit basis and go to London Monday & Tuesday. Plan to return home September 8 or 9th getting to office not later than September 12th. Will be at Savoy Hotel London 29, 30, 31st if for any reason you need to contact me. Hope not. Following items may be of a little interest. (1) Dollar OK stronger than a year ago. This virtually unanimous – Switzerland, Austria, Germany, France. British press beginning to campaign vs. dollar – but so far having little effect.

(2) Inflation getting ahead of Europe and over capacity developing.

(3.) Our monetary policy generally approved but fearful it may go too far. Bill rate of under 2% deplored! 4 1/2% prime, 3% discount, 2% bill not too serious but fear of U.S. recession greater than easing money.

(4) Africa, Cuba, S. America very serious

(5) Fear – particularly Adenauer & De Gaulle U.S. may decide to ditch Europe

(6.) Stayed with Henry Taylor in Berne 2 days and found Swiss concern over war, influx of funds etc, very real.

This is a grand trip and do hope you are having a pleasant time. Our best to Ida. Europeans generally unhappy about both our candidates but I have kept away from election

as ever

Bill

P.S. Tell Miss Muelhaus back Sept 8-12

C O N F I D E N T I A L

~~Governor Szymczak~~

Governor Robertson

~~Governor Shepardson~~

~~Governor King~~

Please return to
Governor Balderston

CONFIDENTIAL

Hotel Plaza-Athenee
Paris
August 27, 1960.

Dear Canby:

Have just arrived in Paris after a wonderful tour, spending 3 days with our Ambassador, Doc Matthews, an old friend in Vienna, and a pleasant day in Luxembourg with their Prime Minister also an old friend. Have avoided all press so far and believe my travels largely unknown. Just finished a long luncheon with Baumgartner (only the two of us at his home) and also some other French inspectors of old school. Have kept trip on a tourist visit basis and go to London Monday and Tuesday. Plan to return home September 8 or 9th getting to office not later than September 12th. Will be at Savoy Hotel (London) 29, 30, 31st if for any reason you need to contact me (Hope not). Following items may be of a little interest.

(1) Dollar OK - stronger than a year ago. This virtually unanimous. Switzerland, Austria, Germany, France. British press beginning to campaign vs. dollar--but so far having little effect.

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(3) Our monetary policy generally approved but fearful it may go too far. Bill rate of under 2% deplored. 4½% prime, 3% discount, 2% bill not too serious but fear of U. S. recession greater than easing money.

(4) Africa, Cuba, S. America very serious

(5) Fear--particularly Adenauer & DeGaulle U.S. may decide to ditch Europe.

(6) Stayed with Henry Taylor in Bern 2 days and found Swiss concern over war, influx of funds, etc., very real.

This is a grand trip and do hope you are having a pleasant time. Our best to Ida. Europeans generally unhappy about both our candidates but I have kept away from election.

As ever,

(Signed) Bill

P.S. Tell Miss Muehlhaus back Sept. 8-12.

CONFIDENTIAL

Hotel Plaza-Athénée
Paris
August 27, 1960.

Dear Canby:

Have just arrived in Paris after a wonderful tour, spending 3 days with our Ambassador, Doc Matthews, an old friend in Vienna, and a pleasant day in Luxembourg with their Prime Minister also an old friend. Have avoided all press so far and believe my travels largely unknown. Just finished a long luncheon with Baumgartner (only the two of us at his home) and also some other French inspectors of old school. Have kept trip on a tourist visit basis and go to London Monday and Tuesday. Plan to return home September 8 or 9th getting to office not later than September 12th. Will be at Savoy Hotel (London) 29, 30, 31st if for any reason you need to contact me (Hope not). Following items may be of a little interest.

(1) Dollar OK - stronger than a year ago. This virtually unanimous. Switzerland, Austria, Germany, France. British press beginning to campaign vs. dollar—but so far having little effect.

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P.S. Tell Miss Muehlhaus back Sept. 8-12.

August 9, 1960

Dear Canby:

Had dinner Sunday evening with Mr. & Mrs. Abs, Blessing, Otto Emminger and had a 4 hour visit afterward at Abs house. They assert confidence in the dollar and assure me that at the moment things are quiet. Abs violently against revaluation of the mark which British have pressed for and which a number of professors and even some in the Bundesbank favor. Abs worried about East Germany and possibility Russians may assume U.S. unable or unwilling to act during elections.

Monday spent 2 hours with Blessing going over German domestic situation. Over full employment and a real boom. Only 100,000 registered unemployed and over 500,000 available jobs. Prices beginning to rise and building facilities in particular strained. Pointed out to him this made a political problem for us because of our unemployed. Bank doing everything it can to restrict credit but so far unsuccessful. Situation very similar to ours in 1956 (Wolf their economist with whom I visited later very pessimistic about doing anything because Adenauer is already campaigning for 1961 reelection.)

Local States have had a windfall in tax revenue and are spending more money than they should at a time when labor and resources are strained. The take is more than 4 billion DM more than anticipated and Blessing et al are trying to get them

(2)

to invest at least 3/4 of it, i.e. 3 billion D.M. in gov't securities through higher interest rates but without too much success. More understanding of interest rates than with us but still quite a bit of criticism (Visited with 5 bankers including Adenauers advisor - Pferdmenges - and found them inclined to think Central Bank too tight - very much like our bankers). This battle against inflation never ends. Visited with Vocke who also is inclined to think things are going well and banks should do more to restrain. Stock prices more inflated now than ours were last year.

Lunched with Staff of bank and Blessing. All of them feel U.S. economy will have at least a mild upturn in fall. None of them think we will have serious recession now although they feel adjustments must be made in our economy over next few months or a serious downturn will occur in 1961. Very apprehensive about our elections and feel both Nixon & Kennedy are at heart inflationists.

Very unhappy about Mr Pick whose dollar forecasts have received wide publicity and unnamed Swiss bankers. Applaud U.S. balanced budget and Federal Reserve policy as two moves which have restored confidence in currency. Things alright now despite heavy inflow of dollars part of which are coming because of hope for revaluation of the mark. Think further easy money moves by the Fed are probably necessary but they will not make it any easier for them. I conditioned Blessing a bit on this and found he personally does not think a 3% discount rate and more reserves will do much damage but feels we should stabilize around at 2% bill rate, 4 1/2 % prime rate, 3% discount rate.

These are hasty comments of long and on the whole encouraging visits. Did not see any press and believe visit useful. Weir Brown will inform Treasury of dollar situation. En route to Bern to-day where will spend evening with Henry Taylor and recheck Swiss thinking

Bill

CONFIDENTIAL (F. R.)

~~Governor Szymczak~~

Governor Mills

Governor Robertson

Governor Shepardson

Governor King

Please return to
Governor Balderston

Hotel Frankfurter Hof
August 9, 1960

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Local states have had a windfall in tax revenue and are spending more money than they should at a time when labor and resources are strained. They took in more than 4 billion D.M. more than anticipated and Blessing et al are trying to get them to invest at least 3/4 of it, i.e. 3 billion DM in government securities through higher interest rates but without too much success. More understanding of interest rates than with us but still quite a bit of criticism. (Visited with 5 bankers including Adenauer's adviser--Pferderminges--and found them inclined to think Central Bank too tight--very much like our bankers). This battle against inflation never ends. Visited with Vocke who also is inclined to think things are going wild and bank should do more to restrain. Stock prices more inflated now than ours were last year.

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(Signed) Bill

C
O
P
Y

Grand National Hotel
Lucerne
August 10, 1960

Dear Canby:

Spent yesterday evening with Henry Taylor, our Ambassador in Berne, and then met with some 20 of his staff for a go around. Very little to add to my previous notes. Inflow of dollars continues--now over 1 billion Swiss Francs. Manager National Bank in Berne very disturbed about it and they are taking active steps to halt it but to no avail. They are going to charge 1/2 per cent commission on new deposits and limit withdrawals for 6 months. Neither of these measures will be very effective in my opinion but are indicative of their worry.

Some Swiss are very worried about war--again this is the first time I have heard this from responsible people for a long time. Moves by Khruschev since breakup of summit indicate in judgment of these a willingness to go to war. East Berlin crisis probable starting place. Henry Taylor agrees. Personally I doubt it.

Am convinced no real worry about dollar at the moment. Quite a bit more talk about U. S. recession here. Strangely enough those who believe in this seem to think it assures them of sound dollar and hence want to have dollars for purchases in U. S. when prices decline.

One thing I did not mention in my letter from Strasbourg, i.e. Blessing et al repeatedly said they hoped U. S. Steel people would succeed in selling more steel in Germany. This would be very helpful and prevent German steel people from expanding their productive facilities far beyond anything Wolf et al think they can sustain in the near future.

I am gradually working my way in a leisurely fashion toward Austria and may spend a few days in Vienna next week. I will be back in Bonn around the 20th. Don't bother about communicating with me as I have no fixed schedule and no reservations so just take it as it comes.

(Signed) Bill

(Treasury Draft)

CONFIDENTIAL

IV-8 - 1

International Economic Policies

American international economic policies matured substantially during the 30's and in the current postwar period. There has been a growing recognition that our own well-being would be improved in the long run if we adopted far-sighted policies leading to the expansion of world trade and that the wise course for this country was to contribute to the growth of international commerce by admitting foreign goods and in larger volume. Today, I believe there is full recognition on the part of the American people of the need for expanding two-way trade and investment between the United States and other countries, especially with the end of the European Recovery Program in sight.

The European Recovery Program was undertaken at a time when the position of many governments in Western Europe was precarious and it was feared that any further weakening of their economies might cause unhappy and restless peoples to yield to the driving effort of communist parties to overthrow their democratic systems. Our immediate purpose was to support existing governments strongly enough to save them from economic collapse and to give their democratic forces a better chance to rally the great majority of people in opposing a movement for which they really had little liking. The contest was between ideas, and the idea we and the European governments were fighting had tremendous appeal when men were miserable and they saw their governments vainly struggling against economic deterioration.

Aid under the European Recovery Program was not limited to those countries where the communist threat was serious. Our second purpose was to assist a whole group of friendly nations to speed the process of postwar rehabilitation and to establish a strong economy. This would give such stability to their governments that there would be little danger that their peoples would turn to communist policies. It would also relieve this country of the necessity to continue its burdensome programs of foreign aid, and it would convert the friendly nations from areas of danger into fortresses of power, able to join effectively in a common cause of defense if it became necessary to halt aggressors.

The plan was successful in its immediate purpose, and the strengthened governments were able to hold their ground and to defeat the communist threat. But notwithstanding the rapid expansion of production in Western Europe, only limited success can be claimed in attaining the larger purpose to build up strong, self-supporting economies. The growth of production beyond prewar levels has not brought a corresponding improvement in the volume and pattern of international trade because foreign countries have not yet built up a sufficient volume of self-supporting two-way trade with the United States, or made progress in attracting an increasing flow of investment from the United States.

The difficulties of the situation are illustrated in Britain. The demands of British consumers and of British producers for American goods are very large. The fine progress that country has made in restoring production makes it possible for it to export goods in considerable volume, but much of this trade earns no dollars. It is not now possible to match British exports against the American imports in the manner they were matched when triangular trade and free convertibility of currencies went together. In earlier days, a country which exported goods to the United States on balance and imported goods from England transferred its dollar credit in the United States to Britain in payment for the British goods which were in normal competition with U. S. goods, and this triangular process worked in the same manner when participation by several countries made it multilateral. Today, British exports go, for the most part, to countries which pay, not in dollars, but in their own goods, or by drawing upon the large indebtedness to them which Britain piled up during the war. These countries now prefer to retain their dollar earnings to spend in the United States, and are reluctant to pay dollars for British goods which are not yet able to compete effectively with American products. Indeed, the events of 1949 demonstrated that this is a major factor in the economic problem of Britain and other Western European countries.

(Treasury Draft)

With the cessation of the ERP, the Europeans will face some difficult readjustments unless European dollar earnings are substantially increased over present levels. We too will not be unaffected, especially in domestic agriculture. From the economic point of view, the European market is most important for some of our products and difficult domestic adjustments would be required if Europe has fewer dollars to spend than at present. In the fiscal year 1948-49, we exported to Western Europe 21 percent of our cotton production, 21 percent of our leaf tobacco, and 26 percent of our total wheat and wheat flour production. The domestic problems arising from agricultural surpluses would be greatly aggravated if these exports were greatly diminished.

The continuance of large-scale American aid must be ruled out of consideration as perpetuating an unproductive burden upon us. The problem of facilitating continued economic progress in Western Europe despite the shortage of dollar funds with which to pay for American goods is being attacked from several directions. The administrators of our aid program are pressing for a much greater degree of integration of foreign economies and of the economic policies of those countries and for the breaking down of trade barriers between them which limit the extent to which mutual exchange of their production may fill the needs of each. This is one program which may contribute to improving the situation. Unfortunately, it requires the abandonment of nationalistic policies of long standing and its progress is very slow.

(Treasury Draft)

IV-8-5

The more direct attack is to increase the export of goods from Western Europe. This was one of the principal objectives of the devaluation of the British pound sterling in September, 1949, which was followed by devaluation of many other currencies. It is too early to determine the effect. Devaluation made their own goods cheaper in terms of dollars, and this should lead to increased buying of their goods by the United States and other countries that did not devalue; contrariwise, it reduced the buying power of the devalued currencies in American markets which, under normal conditions, would lead to a decline in the demand for U. S. goods, and to a reduction in the adverse balances of payments which have been burdening the devaluing countries. Other factors will contribute to the final result, however. Whether European exports to America will increase depends upon the actual course of dollar demand, upon competitive demands for goods in soft currency areas, and upon costs of production as well as upon the new exchange rate between the dollar and other currencies. If there is a corresponding rise abroad in costs of production and foreign prices of goods produced for export, or if British producers generally maintain the dollar prices on their goods, it is not to be expected that devaluation will bring about a very great increase in dollar receipts.

(Treasury Draft)

IV-C-6

We also have erected barriers to international trade which we have the power to remove or reduce. As in the case of the greater integration of Western European economies, it would be a counsel of perfection to propose that we do this speedily. Action to reduce tariffs is proceeding with determined purpose under the Reciprocal Trade Agreement Act. Administrative changes to facilitate the passage of goods through United States customs are being made. The charter of an International Trade Organization, to provide a code of rules and a mechanism for dealing with international trade problems, has been negotiated and placed before the Congress for approval. We may well feel that we were making progress in modifying our national policies in the interest of expanding international trade. Yet still further progress is desirable.

In his Inaugural Address in January, 1949, the President proposed what has become known as the Point Four Program to assist the underdeveloped areas of the world in raising their standards of living and creating an environment favorable to the maintenance or development of freedom and democracy. The export of American capital under this Program can be of great assistance in meeting the problem created by dollar shortages in Western Europe. The Point Four Program would promote the development of international markets which, being added to those already existing, will permit the countries of Western Europe to find new markets for capital and other goods by an expansion of total world trade.

(Treasury Draft)

Our contribution to this effort, the Point Four Program proposes, is in the first instance furnishing technical advice and assistance to the countries which have made little progress in development, and legislation for this purpose has been recommended and is under consideration by the Congress. Corollary steps are further assistance by the Export-Import Bank to accelerate progress in developing areas, the encouragement of investment of private capital from this and other industrially advanced countries, and the negotiation of treaties to assure private capital against discriminatory treatment. We must, however, reiterate the important principle stated in my address a year ago, namely that this program is one of helping other countries to help themselves and that the principle burden must be borne by foreign countries themselves.

We believe firmly in the capacity for development inherent in the vast areas of the world where hundreds of millions of people live on the bare subsistence level. We know that increasing economic development brings an increase in two-way international trade and that the country which enlarges its exports must also enlarge its imports. In the underdeveloped countries there is an enormous potential demand for the products of Western Europe and of America which will become active as their resources are more efficiently used and the standard of living of their people is raised. It is the purpose of the Point Four Program to activate and catalyze the laggard powers of economic growth elsewhere and thereby to expand the opportunities for world trade so that the countries of Western Europe, participating therein, will find an outlet for their increasing production.

To:

Mr. Martin
Mr. Lynch
Mr. Willis
Mr. Arnold
Mr. Glendinning
Mr. Schaffner
Mr. Hynning
Mr. Minskoff
Mr. Curtis
Mr. Bitterman

ECA Report No. 3
February 23, 1950

Secretary Snyder

Mr. Lynch

Congressional Activities With Respect to ECA, February 22, 1950

On February 22, 1950 the Senate Foreign Relations Committee continued ECA hearings. Mr. Hoffman was the only witness. Mr. Hoffman did not present a prepared statement. The Committee continued the questioning of him which had started the previous day.

The House Foreign Affairs Committee heard a statement, a copy of which is enclosed, from Mr. Averell Harriman, which outlined in some detail the progress made toward political stability in Western Europe during the past year. Mr. Harriman was subjected to questioning at the conclusion of the statement.

A copy of H. R. 7378, which was introduced by the Chairman of the House Committee, is enclosed. This bill, which was prepared by ECA and has been reviewed by the Bureau of the Budget, is identical with that being considered by the Senate, which, however, does not formally have a bill before it.

A. Senate Foreign Relations Committee

Sterling Oil and ECA: Under persistent questioning by Senator Lodge, who seemed to be interested in what steps could be taken to expand British sales of oil, Mr. Hoffman said that further reduction could not be made in the funds allocated to Britain for petroleum products without a cut-back in the United States production. He also talked of the unavailability of larger British petroleum supplies. He said that the dollar cost of expanding British Middle Eastern production is not sufficiently smaller than would be the cost of procurement from American Middle Eastern companies. Mr. Hoffman concluded that the present system of procurement from American companies is preferable.

Clearing Union: Only slight reference was made to the Clearing Union, which had been covered the previous day. Mr. Hoffman did state that he hoped for an additional 25% reduction in quantitative restrictions throughout Europe by the end of 1950. The ECA staff will present an analysis of the Clearing Union for the record.

European Integration: Mr. Hoffman stated that persuasion rather than coercion is the better approach to achieve European integration. For this reason he thinks it undesirable to introduce any further statutory provision aimed at obtaining European integration.

Termination of ECA: It is and has been the aim of the ECA to terminate European assistance on a continent wide basis in 1952. This does not mean, however, that after 1952 there will not be aid on a specific country basis.

Senator Connally: Sen. Connally said that he wished to withdraw his remarks of the previous day to the effect that the Senate Committee had been misinformed by ECA. He stated that ECA had, in fact, included in the previous years testimony the material under reference.

B. House Foreign Affairs Committee

Mr. Harriman's testimony: Talking of progress toward political stability Mr. Harriman cited a number of examples, such as the election reverses suffered by the Communists in Norway, Western Germany and Belgium, and the strengthening of non-Communist trade unions in France and Italy, as evidence that Communism has suffered a "notable" setback in Europe. Harriman also told the Committee that the $2.95 billions being requested for ECA for fiscal year 1951 is an absolute minimum, and if that amount is reduced self-support will never be achieved by the participating countries and the "program would shift from recovery to mere relief."

Many of the questions directed at Harriman after he read his prepared statement were the same as those asked Acheson Tuesday, particularly those dealing with the necessity for post-1952 aid, the broadening of the investment program, and the situation in Southeast Asia. For the most part Harriman's replies paralleled Acheson's and are not reported here. Other phases of the ECA program on which Harriman was examined are the following:

ECA as a part of our foreign policy: Rep. Bolton (O.) asked if ECA must be continued to safeguard the security of the U.S. Harriman replied that the MAP and ECA programs were plainly "part and parcel of our foreign policy", and unless there are healthy economic and social conditions in Europe there cannot be political stability, and in the absence of a stable political situation Europe would most likely fall to the Communists, which would be a serious threat to our own security.

$2.95 billions a minimum figure. Rep. Merrow (N.H.) recalled that Hoffman had told the joint session that there would be $150 millions carried over from the current fiscal year to 1951, and he asked why, if such a saving could be effected the request for 1951 couldn't be cut considerably. Harriman repeated that in his opinion the $2.95 billions figure represented an absolute minimum, and he said the $150 millions saving had been considered when computing this amount. He said further that Hoffman should not be penalized by having his request cut, after he had demonstrated his good faith by effecting a substantial saving during the current year.

East-west trade under ECA. Rep. Fulton (Pa.) asked for information relative to trade between ECA countries and the Soviet satellites. Harriman repeated the ECA policy of encouraging the expansion of east-west trade except for military items. He said, however, that this trade hasn't developed to the degree hoped for, chiefly because the eastern countries haven't got the products essential to support and advance such trade.

Relation of World Bank to European recovery. Rep. Fulton (Pa.) asked about the activities of the IBRD in relation to the ECA. He also wanted to know if there wasn't some overlapping of activities of ECA and the Bank. Harriman said there was no such overlapping, but he said it had been hoped the World Bank would have made more loans than it actually has to ECA countries.

The Senate Foreign Relations Committee will continue hearings Thursday with the Secretary of State Dean Acheson as the witness.

CC Mr. Martin

ABLitschgi; JWally; EFRains
iof 2/23/50

81ST CONGRESS
2D SESSION

H. R. 7378

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 21, 1950

Mr. KEE introduced the following bill; which was referred to the Committee on Foreign Affairs

A BILL

To amend the Economic Cooperation Act of 1948, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 111 of such Act is hereby amended by adding at the end thereof the following new subsection:

"(d) The Administrator is authorized to transfer funds directly to any central institution or other organization formed to further the purposes of this Act by two or more participating countries, or to any participating country or countries in connection with the operations of such institution or organization, to be used on terms and conditions specified by the Administrator, in order to facilitate the development of transferability of European currencies, or to promote the liberalization of trade by participating countries with one another and with other countries."

SEC. 2. (a) Section 114 (c) of such Act is hereby amended in the following particulars:

(1) By striking out the period at the end of the first sentence and inserting in lieu thereof a colon and the following: *Provided further,* That, in addition to the amount heretofore authorized and appropriated, there are hereby authorized to be appropriated for carrying out the provisions and accomplishing the purposes of this title not to exceed $2,950,000,000 for the fiscal year ending June 30, 1951: *Provided further,* That, in addition to the foregoing, any balance unobligated as of June 30, 1950, or subsequently released from obligation, of funds appropriated for carrying out and accomplishing the purposes of this title for any period ending on or prior to that date is hereby authorized to be made available for obligation through the fiscal year ending June 30, 1951, and to be transferred to and consolidated with any appropriations for carrying out and accomplishing the purposes of this title for said fiscal year."

(2) By amending the last sentence of such section 114 (c) to read as follows: "The authorizations in this title are limited to the period ending June 30, 1951, in order that the Congress may pass on any subsequent authorizations."

(b) Section 114 of such Act is hereby further amended by adding at the end thereof the following new subsection:

"(h) Of the amounts authorized to be appropriated for carrying out the provisions and accomplishing the purposes of this title and allocated for assistance to Germany the President may transfer such amounts as he deems appropriate to any department or agency which may be used without regard to other provisions of this title as the President may specify, for expenses not otherwise provided for, necessary to enable the President to meet the responsibilities and obligations of the United States in connection with the rehabilitation of occupied areas of Germany, including such minimum supplies for the civilian population of such areas as may be essential to prevent starvation, disease, or unrest prejudicial to the objectives sought to be accomplished, and the cost of such supplies, commodities, equipment, and services as may be essential to carry out the purposes of this subsection: *Provided*, That any such funds which are so transferred may be expended either under the authority contained in this subsection or under any provisions of law applicable to the department or agency to which so transferred and not inconsistent herewith: *Provided further*, That such part, as may be agreed upon by the Secretary of State and the Administrator for Economic Cooperation, of the local currency deposited or to be deposited by Germany under the bilateral agreement entered into by the Government of the United States and the Government of the Federal Republic of Germany on the 15th day of December 1949, or any supplementary or succeeding agreement which shall not substantially alter the basic obligations of either party in this respect, shall be deposited into the GARIOA Special Account under the terms and conditions contained in article V of the aforementioned bilateral agreement, and shall be available without reimbursement from any appropriation to the Department of State in such quantities and under such terms and conditions as may be determined by the Secretary of State after consultation with the Administrator for Economic Cooperation, for carrying out the responsibilities of the United States in the occupation of Germany, including any contingencies which may arise in connection therewith."

SEC. 3. Section 115 of such Act is hereby further amended by adding a new subsection as follows:

"(j) The Administrator shall utilize such amounts of the local currency allocated pursuant to subsection (h) as may be necessary, to give full and continuous publicity through the press, radio, and all other available media, so as to inform the peoples of the participating countries regarding the assistance, including its purpose, source, and character, furnished by the American taxpayer."

81st CONGRESS
2d Session

H. R. 7378

A BILL

To amend the Economic Cooperation Act of 1948, as amended.

By Mr. Kee

February 21, 1950

Referred to the Committee on Foreign Affairs

Statement by Ambassador W. Averell Harriman
U. S. Special Representative in Europe
Before the Senate Foreign Relations Committee

For Release upon delivery,
February 1950.

Mr. Hoffman has outlined to you the progress of European recovery thus far and the prospects for continued success. I will not go over the ground which he has covered, but will confine my report to certain aspects of the situation in Europe as I have observed them develop.

When I appeared before your Committee last year I expressed my conviction that we were winning the struggle for reconstruction and freedom. During the past year political stability and democracy have been strengthened throughout Western Europe. This has been demonstrated in one national election after another.

In the Norwegian elections of last October, the Communist representation in the National Assembly was wiped out. They lost all the eleven seats they had previously held.

In August, the people of Western Germany had their first opportunity to register a free choice as to the kind of federal government they wanted. Out of 402 seats, only 15 went to Communists.

When the Belgian people went to the polls last June, the Communists were left with only 12 seats out of 212 in the Assembly as compared with 23 out of 197 in the previous election. In the Senate the Communists were reduced from 17 out of 167 to 7 out of 174.

The people of Austria, even with part of their country under Soviet occupation, have been firm in their rejection of Communism, with only five percent voting the Communist ticket and the number of seats in the Parliament held down to five out of 165.

Communism has experienced its most notable setback in the European trade union movement which it sought to penetrate and control at all costs. Intent on using the labor movement as the spearhead of their drive, the Communists had captured the major trade union federations in Italy and France before the Marshall Plan took shape. The labor movements in these two countries were under virtually complete Communist domination now that control is losing its grip and the non-Communist labor movements are rapidly gaining strength. In France, the Force Ouvriere, together with other non-Communist trade unions, is challenging the Communist control of the French labor movement.

In Italy two major non-Communist labor federations have broken away from the Communist-controlled confederation, and are now combining their forces of more than 1,500,000 free Italian workers.

At a convention held last October in Western Germany at which the trade unions formed a single federation, the Communists could muster only a handful of delegates.

In other countries like Austria, Belgium and Norway, where Communists had once been strong, their influence in organized labor has diminished to insignificance.

In many of the countries, Communists are still in control of some labor unions and are still in a position to cause economic dislocations, and otherwise capitalize on social unrest, but their power is steadily declining.

The rising determination of workers to drive out Communist agents from positions of control and influence in the labor movement has had worldwide repercussions. The walkout of free labor organizations from the once powerful World Federation of Trade Unions, which has been an instrument of Communist intrigue, was a significant advance in the march of labor toward freedom and democracy. Meeting in London early last December, representatives of free trade unions from 53 countries, including 15 ERP countries and the United States, formed the new International Confederation of Free Trade Unions with a total membership of over 48 million. This great new labor organization issued a forceful declaration in support of the Marshall Plan. We in America can be justly proud of the leadership of the great labor organizations of the United States, who, working closely with labor unions in other lands, have helped establish the new Confederation as a world organization devoted to the advancement of workers' welfare and the defeat of Communistic infiltration.

These are notable gains scored in the struggle of freedom against Communism. But the insidious campaign to capture and control Europe is still being relentlessly waged in many forms and in many guises.

The gains made by the voters and workers of Europe toward the free way of life would have been impossible if economic recovery with American aid had not given them new confidence and new hope.

The people of Europe are increasingly aware of the part which our country and our people have played in the joint recovery effort.

At the express direction of the Congress, in the 1949/50 appropriation act, the ECA is carrying forward a vigorous information program to make certain that the full story of American aid and its purposes gets to the people of Western Europe. The participating governments, despite a slow start by some, are showing increasing initiative in doing their part to get the facts of the recovery effort and the role of American assistance faithfully to the public.

There is reassuring evidence that the Marshall Plan story is getting over to Western Europe and is creating the understanding vital to its success.

Western Europe's 2,000 daily and weekly papers, with a combined circulation of 110,000,000, are now publishing some 4,000 Marshall Plan articles per week -- double the number of a year ago.

In cooperation with the Governments, Marshall Plan news, explanatory interviews and programs dramatizing the ERP are broadcast on the nationwide radio networks of all the Marshall Plan countries. The European radio listener in each country now has available in his own language an average of two special ERP broadcasts weekly. Our studies show that they are being heard by some 40,000,000 listeners. In addition to all this there is constant coverage by the Voice of America.

Over 50 ECA documentary films have been made, each adapted to particular countries and reproduced in various languages. Individual newsreel shots on Marshall Plan subjects are being shown in commercial theaters with an average weekly audience of 30,000,000 Europeans. This distribution is being steadily increased.

Last summer some 5,000,000 European fair-goers saw ERP exhibitions which were prepared and shown in collaboration with the participating governments, and this year the ERP will be graphically portrayed at an even larger number of fairs.

The story is told in many other ways. In some places the European postman has spread the word of American aid through special ERP stamps. A million ERP school books are in use in the German schools. This year four ERP showboats will ply the inland waterways of the continent.

In connection with the ECA Information Program in Europe, there are two points I should like to mention:

One is that the principal cost of this activity -- more than four-fifths of all expenditures -- is paid out of the local currency counterpart funds.

The second is that the Marshall Plan must meet imaginatively and without timidity the unceasing attacks and propaganda directed against American aid and American motives by the obedient Communists in every country.

A big job remains to be done both by the participating governments and by the ECA itself. Propaganda is the principal weapon of the Communists and the more the ERP succeeds the more they try to misrepresent it. While most Europeans are now aware of the Marshall Plan, there are still too many who do not know enough about it or adequately understand it.

You have before you today the Second Report of the Organization for European Economic Cooperation. This is more than a staff study by a group of experts. It represents the unanimous judgment of the participating governments, appraising the progress that has been made and the problems confronting them and the United States in our joint effort. It defines economic objectives and the policies necessary to achieve them. It contains commitments to positive action, individual and collective, by the 18 responsible member governments.

Among these 18 is the new German Federal Republic. It is significant that the OEEC is the first international organization into which the new German Government has been admitted as a full partner. This is an earnest of our hopes for the peaceful and constructive association of Germany in the Western European community.

The OEEC proceeds from appraisal of specific problems to negotiation of the necessary commitments by the governments and a follow-through on the action required. These are no easy tasks. I and the members of my staff have participated as observers in countless meetings of OEEC committees dealing with a wide range of common problems. We have been deeply impressed with the earnest concentration and determination shown by the national delegates and the able international staff brought together in Paris.

There are many ways in which the organization is contributing day by day to steady progress in the building of a healthy European economy.

During the past year, for example, its Food and Agriculture Committee has initiated far-reaching activities for the expansion of farm output in Europe. The Electric Power Committee has developed plans for speeding the expansion of power supply, including internationally interconnected systems which will go far to remove the one remaining major physical bottleneck in European production.

Through the work of the OEEC Manpower Committee, solid progress has been made in facilitating the resettlement of workers within Europe, in encouraging overseas emigration from surplus population countries, and in providing assistance for industrial training and improved employment services. Freedom of movement of workers across national boundaries has been increased and higher employment in Europe has been promoted by this pioneer effort of concerted international action.

In the field of trade liberalization, a special committee has scrutinized each member nation's proposals, defining rigorous common standards of performance to test compliance with the agreed course of action. Another committee has made a searching and critical review of the internal financial position and policies of each participating country. A second review is now under way. Such action in an international organization is without precedent.

A new study is being undertaken of ways and means to encourage private international investment -- especially American investment -- in the member countries and their overseas territories.

Mr. Hoffman has described to you the work of the OEEC and the formidable problems which it faces in connection with economic integration of Europe. These problems are occupying an increasing share of the organization's attention and we must look for more vigorous and effective progress in their solution.

This constant process of collaboration on every aspect of economic policy has helped to build in Western Europe a growing sense of common purpose and community of interest. Even the disputes that have taken place in the Organization and attracted a good deal of public attention demonstrate the vital character of the issues it deals with and the decisions it makes. It is fair to say that no important economic policy is now adopted by any one of the participating countries without serious consideration of its repercussions on that country's OEEC partners and on the progress of the European Recovery Program.

I should like to stress one feature of Europe's economic effort which seems to me particularly significant. That is the very large share of Europe's total economic resources which is going into investment rather than current consumption. Although European living standards are far below our own and in most countries still below pre-war, the rate of investment is much higher than pre-war. European investment averages about 20 percent of gross national product compared with 15 percent in the United States.

These investments are mainly for the direct expansion of production: They are in power projects, transportation systems, production of basic materials and export industries. They are the means by which Europe can use this period of American aid to build up its production and export potential to the point where aid can safely be terminated without leaving impoverishment and unemployment in Europe. These high levels of investment mean that consumption is being held down. The respite afforded by our aid is not a period of mere living on charity. The ERP is no international dole; it is a program for genuine recovery.

This vital progress towards a healthy European economy, with which our own long-range prosperity is bound up, is made possible only by ERP aid. Almost half of Western Europe's needed imports of goods and services must at the present time be paid for in dollars. Three-fifths of these dollars are being supplied by American aid.

It is all too easy to see what would happen if aid were cut off in the middle of the program. The European countries would simply have to slash drastically their imports from us.

They would have to eliminate imports of capital equipment, without which they cannot achieve self-support. They would have to cut down imports of industrial raw materials, throwing millions out of work. Cuts in food and feed imports would at once reduce living standards and farm output. With production down, exports would dwindle and imports would have to be still further cut. The fateful downward spiral would be started. Europe would again be faced with the hunger, chaos and despair in which Communism breeds.

On the other hand, if our assistance were continued, but cut to a level below the minimum needed, there would be no margin left for the expansion of production and earning power. Self-support could not be achieved. The program would shift from recovery to mere relief.

I think it is important that we remember the present and potential significance of the European economy. We are concerned with the future of 275 million people. We are concerned with an area whose industrial output is second only to ours and far exceeds that of the Soviet Union and all its satellites. The combined resources of the Western European countries must remain on the side of freedom. Any other outcome would spell disaster not only for them, but for us, and for free men everywhere.

In closing, I should like to express a conviction which I hold deeply. It is simply this: That the American people, and the Congress which has acted in their name in launching the greatest cooperative venture ever known in peacetime, have a right to be proud of the role which the United States is playing in Europe today. I have found among the nations participating in this effort the will to do their share -- the determination to stand and work with us to preserve the liberties which we and they cherish in common. If this nation remains steadfast in its purpose to complete the great work it has undertaken, we will find our partners firm at our side.

Hold for Release

Hold for Release

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
Washington

FOR THE PRESS

FOR RELEASE 12:15 P.M.

Press Release No. 171

February 8, 1950

The International Bank for Reconstruction and Development today released a statement of the principal activities of the International Bank since September 1, 1949, supplementing the Fourth Annual Report of the Bank, which was furnished the United Nations for the use of the Economic and Social Council in connection with its consideration of the Bank's Annual Report.

(Statement attached)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

February 6, 1950

Statement of Principal Activities

Since September 1, 1949

This statement supplementing the Fourth Annual Report of the International Bank for Reconstruction and Development, has been prepared for the use of the Economic and Social Council in connection with its consideration of the Bank's Annual Report. It summarizes the loans granted by the Bank since the issuance of the Fourth Annual Report and its other activities during this period.

LOANS GRANTED

India

On September 29, 1949, the Bank lent $10 million to the Government of India for the improvement of agricultural production. The proceeds of the loan are being used to finance the dollar component of the cost of agricultural equipment and spare parts needed for the reclamation of lands infested with a weed known as kans grass, and for the clearing of jungle lands. The loan was for a term of seven years and carried an interest rate of 2 1/2%, plus commission at the rate of 1%, which, in accordance with the Bank's Articles of Agreement, is allocated to its special reserve fund. Amortization payments, calculated to retire the loan by maturity, will start on June 1, 1952.

$8,750,000 will be devoted to the kans grass project, for the purchase of 345 heavy tractors, ancillary equipment, and spare parts. Out of an area of 10 million acres in Central India which are known to be infested with kans grass, the Government has surveyed 3 million acres which will be reclaimed over a seven-year period with the help of the Bank's loan. The method of reclamation involves deep plowing with heavy tractors, plows, and ancillary equipment. The total capital outlay for reclamation and subsequent cultivation of these lands, the major part of which will be financed by India out of her own rupee and sterling resources, amounts to the equivalent of $24,900,000.

It is expected that substantial quantities of grain from the reclaimed areas will be available to the domestic markets. Because of the high yields from reclaimed land, a total of about 4 million tons is expected to be available to the market, in addition to the farm consumption in the reclaimed areas, over the seven-year period, and about 1 million tons annually thereafter. This will make a substantial contribution to India's food requirements, which even on the basis of the present low average of grain rations are currently increasing at a rate of one-half million tons per annum through population growth alone.

To meet the need for increasing India's acreage of arable land, the Government has carried out experiments in jungle clearance. The clearance of jungle lands involves removing of trees, elimination of brush, plowing and harrowing. The balance of the Bank's loan, amounting to $1,250,000, will help finance a pilot program for clearing about 100,000 acres of jungle lands in northern India. The loan will finance the dollar cost of heavy tractors, ancillary equipment, and spare parts. The Government of the United Provinces, where jungle lands will be cleared, will meet the costs of the construction of roads, housing and control of malaria, and other incidental expenses, the total of which cannot at this time be determined. This pilot program will enable the Indian Government to gauge the practicability and the cost of large-scale clearance of jungle lands with modern equipment. It will also make some contribution to India's food supply.

Timber Equipment Loan

On October 17, 1949, the Bank lent the Republic of Finland $2,300,000 and the Federal People's Republic of Yugoslavia $2,700,000, for the development of the timber resources of those countries. The loans will be used to finance the purchase of timber-producing equipment. Both loans are for terms of two years and carry interest rates of 2%, plus the usual commission of 1%. Amortization payments begin on June 30, 1950, and are calculated to retire the loans by their maturity, September 30, 1951.

These loans were two of a series of loans considered in connection with a Timber Equipment Project developed by the Food and Agriculture Organization of the United Nations, the Timber Committee of the United Nations Economic Commission for Europe, and the International Bank, with a view to alleviating the current and prospective shortage of timber in Europe by expanding production in certain timber-exporting countries. The project had its origin in the findings by the F.A.O. and the Timber Committee of the E.C.E. that the production and export of timber by the timber-exporting countries could be substantially increased if lumbering and sawmill equipment could be obtained by them from Europe and the United States. Discussions were then held among those agencies, the International Bank, and representatives of the important timber-importing and timber-exporting countries of Europe.

As was stated in the Bank's Fourth Annual Report, these discussions resulted in the formulation of a plan, the salient features of which were as follows: The Bank would make loans to the timber-exporting countries of amounts necessary to finance the dollar purchases of equipment; other timber-producing equipment in approximately the same amount would be obtained from European suppliers without financial assistance from the Bank; the timber-exporting countries would agree to export at reasonable market prices specified quantities of timber; and finally, the principal timber-importing countries of Europe would enter into Timber Payments Agreements with the borrowers under which these countries would pay dollars to the Bank for a sufficient part of the timber to be imported by them to ensure repayment of the Bank's loans. It had originally been contemplated that similar loans would also be made to Austria, Czechoslovakia and Poland, but Austria and Poland did not request such loans and Czechoslovakia withdrew its application in view of difficulties encountered in working out Timber Payments Agreements.

Finland entered into Timber Payments Agreements with Belgium, Denmark and the United Kingdom and the loan became effective December 16, 1949. Yugoslavia entered into Timber Payments Agreements with the United Kingdom, the Netherlands, France and Italy, and tbo loan became effective January 24, 1950.

Best available estimates indicate that the machinery to be obtained by Finland and Yugoslavia as a result of the Bank's loans and of purchases from European suppliers will enable those countries to increase their annual production and exports of timber by amounts having a value several times as large as the amounts of the loans. These increased levels should be maintained long after the loans are repaid. The timber-importing countries of Europe will likewise derive substantial benefit, both from the availability of increased supplies of timber needed for the reconstruction and development of their productive facilities, and also from their reduced dependence upon imports of timber from North America, which must be paid for in dollars.

El Salvador

On December 14, 1949, the Bank made a loan of $12,545,000 to the Rio Lempa Hydroelectric Commission to finance imports of materials and equipment required for the construction of a 30,000 KW hydroelectric plant. The loan, which is guaranteed by the Government of El Salvador, is for a term of 25 years and carries an interest rate of 3 1/4%, plus the usual 1% commission charge. Amortization payments begin in 1954.

The Rio Lempa Hydroelectric Commission is a non-profit agency of the Government of El Salvador, created in 1946. Lack of electric power has handicapped the development of El Salvador, and the additional supply generated by the new plant will satisfy a backlog of demand on the part of urban, agricultural and industrial consumers, and provide for some future expansion.

In order to meet the local currency costs of the project, the Rio Lempa Commission plans to make a public issue of colones bonds in El Salvador. The Director of Marketing of the Bank will advise and assist the Commission in the sale of these bonds.

The Loan Agreement will not become effective until the Guarantee Agreement is ratified by an elected Constituent or Legislative Assembly in El Salvador. The present Government is provisional, but elections for a Constituent Assembly are expected to be held this year.

OTHER OPERATIONAL ACTIVITIES

Latin America

Brazil - A Bank mission visited Brazil in October and November 1949 for the purpose of:

1. studying general economic and financial conditions, with special reference to Brazil's capacity to assume additional external debt;

2. considering what priority various proposed development projects should receive;

3. surveying Brazil's government policies for promoting the development of the country's economic resources.

The mission's report is now under consideration.

A survey has also been made by a Bank representative of the electric power market in connection with the Paulo Afonso hydro-electric project which is under consideration.

Chile - A Bank mission visited Chile in November and December 1949 for a review of Chile's economic and financial situation, with special reference to certain development projects which have been submitted to the Bank.

Colombia - The large-scale mission under the direction of Dr. Lauchlin Currie, referred to in the Bank's Fourth Annual Report, remained in Colombia from July to November 1949, making a study of the country and its development potentialities. Its reports are in the final stages of preparation.

The Bank is currently considering three hydro-electric projects in Colombia.

Costa-Rica - Bank representatives paid a short visit to Costa Rica in November 1949, for preliminary conversations with the new Government, which had just taken office.

Cuba - The Vice-President of the Bank visited Cuba in November 1949, for informal discussion of development plans. A Bank mission may soon visit Cuba to make a more detailed study.

Ecuador - A study of the textile industry has been completed and is currently under consideration.

Conversations are continuing concerning several projects proposed for Bank financing.

Guatemala - Representatives of the Bank visited Guatemala in mid-November for preliminary exploratory discussions on Guatemala's development program. Guatemala has requested that the Bank organize a mission to study certain aspects of the Guatemalan economy and to assist the Government in formulating its development program.

Mexico - Negotiations have continued towards the granting of a long-term loan of $26 million to the Mexican Light and Power Company, Ltd. The Bank has made the completion of the reorganization of the capital structure of the Company a principal condition of such a loan. A reorganization plan was issued by the Company in December 1949 to its security holders, who will meet to vote on it in February 1950. The maturity of the interim loan of $10 million granted by the Bank in January 1949, originally set at December 31, 1949, has been extended until July 1, 1950 in order to allow time for the reorganization to be completed.

Nicaragua - Bank representatives visited Nicaragua in October 1949, for exploratory discussion of the country's development possibilities.

Uruguay - Negotiations for a loan of approximately $31 million for improvement of electric power and telephone facilities are entering their final stage.

In response to a request by the Government of Uruguay, a representative of the Bank is visiting Uruguay in February 1950 for discussions concerning the loan and Uruguayan technical assistance requirements with respect to certain sectors of her economy.

Europe

Turkey - Technical studies of the grain storage project, the port construction and improvement project and the project for a multi-purpose dam on the Seyhan river are in progress and will be completed shortly.

The Bank has agreed to send a mission to Turkey to help the Turkish Government prepare a coordinated investment program for the development of the Turkish economy as a whole. Preliminary studies for this purpose have been made.

A Bank consultant, who was in Turkey in October and November 1949, investigating the means by which private investment in Turkish industry can be stimulated, has returned to Turkey after consultation with the Bank concerning proposals for this purpose.

Yugoslavia - The mission referred to in the Fourth Annual Report has now returned and the economic, financial, and other data it obtained are being studied. Discussions with representatives of the Yugoslav Government are now under way.

Asia, Africa and Middle East

Egypt - The Egyptian Government has requested that consideration of the Quena project by the Bank be postponed pending further explorations by the Egyptian Government as to the possibility of obtaining the necessary equipment in soft currency areas without financial assistance.

Ethiopia - The Bank is examining certain projects recently submitted by the Ethiopian Government. A Bank mission may visit Ethiopia in the near future.

India - Negotiations have been entered into for a loan to finance the dollar component of the cost of the Bokaro-Konar project. This project involves the construction of a thermal electric plant, a hydro-electric plant and a transmission system, and represents the first stage of a broader development program for the Damodar River Valley.

A Bank mission is visiting India early in 1950 for a further review of its economic and financial position.

Iran - The Bank expects to send a mission to Iran in the spring or early summer of 1950 to examine high priority projects under the country's seven-year development plan.

Iraq - A Bank mission visited Iraq in November-December 1949 for discussions concerning the possible financing of the Wadi Tharthar flood control project. This project would divert the flood waters of the Tigris River, in order to prevent destructive inundations downstream, and may make possible their later use for irrigation purposes.

Pakistan - The Bank mission which is visiting other countries in the Far East will visit Pakistan early in 1950 for preliminary conversations concerning the economic and financial problems of the country.

Philippines - A Bank mission visited the Philippines in December 1949 for the purpose of reviewing the economic and financial position of the country.

Thailand - A Bank mission arrived in Thailand December 29, 1949 for a study of the economic and financial situation of the country and its development program and possibilities.

U.K. Colonies - The Bank and the Colonial Development Corporation have announced that it has not been possible to bring to a successful conclusion the negotiations that had been underway with respect to a loan for the purchase of equipment to be used in development undertakings promoted by the Corporation in the dependent overseas territories of the United Kingdom.

MARKETING OPERATIONS

No borrowing has been necessary since September 1, 1949, for the purpose of raising "new money" to be used in the Bank's lending operations as available funds on hand were adequate to meet its needs during the period. However, a refunding operation was undertaken, in the United States market, which involved calling for redemption the outstanding issue of $100,000,000 Ten Year 2¼% bonds, due July 15, 1957, for payment at 101 and accrued interest on February 17, 1950. A new issue of the Bank's Serial Bonds of 1950, due 1953-1962, in like principal amount, was sold at competitive sale on January 25, 1950. Four syndicates submitted bids for the bonds, with the aggregate number of bidders totalling 393 commercial banks and investment banking firms, located in 33 states and the District of Columbia. The winning group, which was headed by Halsey,Stuart & Co., Inc. and the First

National Bank of Chicago and was composed of 37 commercial banks and 99 investment banking firms, submitted a bid with net interest cost to the Bank of $14,441,000 or 1.9254 per cent. It is calculated that this refunding operation will result in a net interest saving to the Bank of approximately $1,250,000.

The Bank's 3% bonds due in 1972, which were originally offered on July 15, 1947, are presently quoted 103 9/32-11/32 where they yield approximately 2.80% to maturity. It should be noted, however, that these bonds are callable at any time on 45 days notice (the present redemption price being 102½) so that the current selling price is slightly less than 1% above the call price.

The Director of Marketing of the Bank is visiting Switzerland for the purpose of exploring the possibilities of borrowing Swiss francs to be used in connection with certain of the loans that have been approved by the Bank.

The United States has consented to the use of its paid up subscription for lending purposes. Belgium, Canada and Denmark had consented to the use of their currencies totaling the equivalent of $10,125,000 and the United Kingdom had consented to the use of £500,000 at December 31, 1949. The funds which have become available for lending up to December 31, 1949 expressed in round numbers in terms of United States dollars consist of:

20% paid-in portion of United States subscription	$635,000,000
2% portion of subscriptions of other countries paid in gold or dollars	98,555,000
Part of 18% portion of subscription of Belgium, Canada, Denmark and United Kingdom	11,525,000
Proceeds of two bond issues in the United States	250,000,000
Sale of Swiss Franc Bonds to the B.I.S.	4,000,000
Net available funds resulting from operations	20,764,000
	$1,019,844,000

Of this sum, approximately $304 million remains available for lending.

The Bank hopes to obtain further authorizations for the use of some part of the 18% local currency subscriptions of other members, both in order to increase the amount and flexibility of its loanable resources and to strengthen the international character of its operations.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

For consideration at
Executive Directors' Meeting

INTERNATIONAL BANK FOR
[RECO]NSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

R - 288

(To be submitted to the
Executive Directors on
February 11, 1950.)

FROM: The Secretary

February 3, 1950

UNITED STATES AND OTHER MARKETS FOR BANK'S BONDS

(Report of Marketing Department)

On January 25, 1950, at 11 A. M., the Bank received, in the New York Office, four bids for its new issue of Serial Bonds of 1950, due 1953-1962, and at that time awarded the issue to a syndicate headed by Messrs. Halsey, Stuart & Co. Inc., and The First National Bank of Chicago. This group was composed of 37 commercial banks and 99 investment banking firms. A complete record of the bidding follows:

Group Managers	Price	Coupon	Net Interest Cost $	Net Interest Cost %
Halsey, Stuart & Co. Inc. The First National Bank of Chicago	100.559	2%	$14,441,000	1.9254
Bankers Trust Company Morgan Stanley & Co.	100.1045	2%	$14,895,500	1.9860
The National City Bank of New York J. P. Morgan & Co., Incorporated Kuhn, Loeb & Co.	100.5199	2 1/8%	$15,417,600	2.0556
The Chase National Bank of the City of New York The First Boston Corp. C. J. Devine & Co. Salomon Bros. & Hutzler	100.3854	2 1/8%	$15,552,100	2.0736

It is calculated that the sale of this new issue and the redemption of the Ten Year 2 1/4% Bonds, due July 15, 1957, will result in a net saving to the Bank of approximately $1,250,000.

Sec:4-121

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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Sec:4-121

The aggregate number of bidders in the four competing groups totalled 393 commercial banks and investment banking firms located in 33 states and the District of Columbia. This seems to indicate clearly the widespread interest in the issue.

There follows an analysis of the proposed reoffering prices of the four bidding groups, together with the New York Office "pre-bid tentative scale of prices" and the yield range that had been forecast by certain organizations prior to the bidding.

Analysis of Proposed Offering Prices of
Four Groups Bidding for The Issue of
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
Serial Bonds of 1950, Due 1953-62.

Year	Halsey, Stuart & Co. (High Bid)	Bankers Trust Company (2nd Bid)	National City Bank (3rd Bid)	Chase National Bank (4th Bid)	Approx. Average Four Groups	Pre-Bid New York Office Tentative Scale
1953	1.35	1.35	1.45	1.50	1.41	1.40
1954	1.45	1.50	1.55	1.60	1.53	1.50
1955	1.55	1.60	1.65	1.70	1.63	1.60
1956	1.65	1.70	1.80	1.80	1.74	1.70
1957	1.75	1.80	1.90	1.90	1.84	1.80
1958	1.85	1.90	1.99	2.00	1.94	1.90
1959	1.95	2.00	2.06	2.125	2.03	2.00
1960	2.00	2.10	2.125	2.18	2.10	2.10
1961	2.07	2.15	2.20	2.20	2.16	2.20
1962	2.14	2.20	2.25	2.22	2.20	2.25

	1953	1962
American Banker, Yield Range	1.40	2.20
Savings Banks Trust Co., "Digest" Yield Range	1.45	2.25
Moody's Investors Service, Yield Range (Sent to Subscribers and for Interoffice Use)	1.40	2.10

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Following is a record of the prices at which the bonds were reoffered by the winning syndicate:

Maturity	Priced To Yield	Maturity	Priced To Yield
1953	1.35%	1958	1.85%
1954	1.45	1959	1.95
1955	1.55	1960	100 (2.00)
1956	1.65	1961	99 1/4 (2.07)
1957	1.75	1962	98 1/2 (2.14)

The bonds are generally regarded as being fully priced and the offering is reported to be encountering considerable investor resistance with a substantial portion of the issue remaining in the hands of the underwriters. It is not possible to report accurately the number of unsold bonds as the syndicate was a "divided account" whereby each bidder in the group agreed severally to purchase a specified principal amount of the bonds from the Bank, divided into equal amounts of each maturity. In this type of account each bidder has the right to take down from the syndicate account the full amount of bonds he had agreed to purchase. It is, therefore, not possible to determine accurately the amount of bonds so withdrawn that remain unsold in the hands of such members of the group.

Contributing to the slowness of the issue is the continued uncertainty in the U. S. Government bond market that has persisted for some weeks. There is considerable speculation as to whether the U. S. Treasury's announcement of the terms to be offered to holders of certain securities maturing in March, will forecast a further tightening in the rate for short-term money. The market unsettlement has also affected prices of longer-term Treasury issues with some of these bonds having receded in price 3/4 of 1% to 1% from the high levels established around the turn of the year.

Sec:4-121

It is widely regarded that a clarification of the present confused market picture must occur before the Bank's issue may be expected to move at a faster rate from the hands of the winning syndicate into the portfolios of investment institutions.

Favorable comments have been received from the managers of all four groups that participated in the bidding as to the efficient manner in which the issue was presented and the quality of the material and service that was rendered them in connection with the sale of the Bank's bonds. This was possible only because of the splendid teamwork among the various Departments of the Bank.

Distribution:

Executive Directors and Alternates
President
Vice President
Department Heads

LD:gm
Sec:4-121

MEMORANDUM

March 14, 1951

From: Under Secretary Foley

To: Mr. Martin
Mr. Bartelt
Mr. Lynch
Mr. Graham
Mr. Haas

I think you will find Mr. Leffingwell's letter to the President (copy of which is attached) interesting, even though you may not agree with it.

You will note that Bill Hassett in his memorandum is referring the letter to the Secretary of the Treasury "for consideration and further acknowledgment".

I am sending George Haas to prepare a draft reply which should be distributed to Messrs. Graham, Martin, Lynch and Bartelt for suggestion and criticism prior to its being put in final form. I am sending a copy of Mr. Leffingwell's letter to each of the men referred to in this paragraph.

EHF

Attachment

Miss Muehlhaus

August 8, 1963.

AIR MAIL

CONFIDENTIAL (FR)

The Honorable M. W. Holtrop,
President,
The Netherlands Bank,
Amsterdam-C.

Dear Marius:

This letter is the promised follow-up on my acknowledgment of yours of July 23rd. At the outset, let me express gratification at your fresh expression of cooperation in our efforts to bridge the U. S. payments deficit for what we both hope will not be too long a time. At the same time, it is important to assure you that we, on our side, do appreciate that the incidence of our payments deficit falls in part on the surplus countries of Europe, who find themselves, by virtue of their surpluses, exposed to a pace of monetary expansion that has been producing what you refer to as a creeping inflation. The whole development emphasizes that the attainment of the payments equilibrium we are all seeking is a two-sided affair and calls for positive policies on the part of all concerned. We both agree, I'm sure, that the sooner the current disequilibrium is remedied, the healthier will be the financial and economic relationships among the major trading partners of the Western World.

For some time, I have been deeply troubled by the evident feeling among European monetary officials that U. S. policies in recent years have not sufficiently grappled with the U.S. payments deficit. Over much of this period, we have had a delicately-balanced economy and there has been recurrent doubt in some business, financial and governmental places as to whether the U. S. uptrend, which was moderate as compared with other postwar periods of cyclical expansion, would be sustained or superseded by recession, perhaps even deflationary recession. In these circumstances, you will understand, I am sure, why we have had to pass through a phase of divided counsels as to whether internal or external developments should receive greater emphasis in our national policies. With existing margins domestically of unemployed manpower and capital resources, it has appeared unavoidable that more positive emphasis on policies oriented to the payments deficit had to be held in abeyance until the course of economic trends clarified. In saying this, I do not mean to convey an impression that we were unprepared or unwilling until the very recent period to take further monetary action for balance-of-payments account, had the evidence of payments flows shown this to be necessary, but the evidence from the currently available data, in my judgment, did not appear to warrant such action. At the June 20th WP-3 meeting, Ralph Young gave a full report on the domestic financial developments that were shaping Federal Reserve views and I think his remarks will warrant your reading because they fairly set forth the dilemma that has confronted us. A copy is enclosed for your personal information.

As it became clear to us that domestic conditions would permit more positive steps by way of monetary action, it appeared appropriate to choose a timing related to a broader program of balance-of-payments policy to be announced by the President and scheduled to be forthcoming regardless of our action. As in all cases of shifting posture for monetary policy and shifting reliance on its available instruments, there are many uncertainties as to effects and counter-effects in domestic and international markets. We can only proceed by watching unfolding developments closely, endeavoring to diagnose them correctly, and responding according to the judgments we make. I felt obliged to comment on this aspect of our monetary policy problem at a hearing before the House Banking and Currency Committee in July 22, held for the purpose of providing further public clarification of the issues, and a copy of my formal statement is also enclosed for your reading. In its concluding paragraph, I stated:

> The Board's recent actions are an essential part of a total effort to bring to an end the U. S. payments deficit, with its harmful effects on the domestic economy as well as on the international standing of the United States. While this process is under way, it is essential that monetary policy remain flexible and uncommitted--free to move either to check an unwanted and inappropriate tightening of credit, should it develop, or to defend more aggressively the international position of the dollar, should that be necessary.

I am glad to know that you are still wrestling with the question of the "Roosa-paper." I can well understand your disposition toward debt prepayment at this time and I want you to know that, from a U. S. standpoint, your recent decision in this respect was timely and helpful.

I was not personally familiar with the quotation you cited from a Treasury Department circular of May 16, but I feel sure that the Treasury, in including the particular quotation, did not intend to convey that it planned to rely importantly on European sources to finance its budget deficit. Our credit markets and large savings supply are surely up to the financing needs of the U. S. Treasury.

And there is no problem of financing these needs through the banks. Indeed, I have personally been surprised that the banks, over the past year and three-quarters, have allocated such a modest proportion of their increase in savings deposits to investment in longer-term U. S. Government securities, which are certainly the best prime quality investment media available to them. Actually, the commercial banks' total holdings of Governments showed no gain during 1962, and over the first half of this year have declined by nearly $3 billion. Since their holdings of long-terms have increased moderately, the decline in their short-terms has exceeded the amount cited, with some consequent erosion in over-all bank liquidity. At the end of 1961, for instance, commercial bank holdings of U. S. Government securities maturing within one year represented 11 per cent of bank deposits, while at mid-1963 the ratio had fallen to 7.5 per cent.

In terms of its total financing operation, the Treasury's statement that you cite is technically correct. But the amount of European placement of intermediate-term paper projected by Under Secretary Roosa is quite marginal in terms of the U. S. Treasury's total financial program. As Roosa has explained himself, this particular international financing operation has as a target, say, a fourth or a little less of an outside projection of our payments deficit. To the extent that progress is made toward payments balance, reliance on this paper would be reduced.

The placement of the intermediate-term paper is, in my judgment, properly arranged on a bilateral basis. The problems and opportunities for its use arise that way and the paper is designed to provide unique advantages, from both a short- and an intermediate-term standpoint, to foreign fiscal and monetary authority holders, while at the same time being advantageous to the U. S. as a payments debtor internationally. By acquiring them, a surplus country is under no more internal inflationary pressure than it would be from acquiring, in consequence of any further payments surplus, either dollar exchange or gold. It might be argued that, by resort to them, the U. S. as borrower has relieved itself, to a degree, of deflationary monetary pressures deriving from its payments deficit. But I should think that this is exactly what is desirable in order to avoid risk of starting a deflationary spiral in the U. S., which could have consequences reaching far beyond its own borders.

The purpose of the Treasury's European borrowing exercise is and must be to bridge time. Any concerted action to limit the potential amount of this type of financing, therefore, would be tantamount to setting a formal time limit during which international payments forces have to work through to equilibrium. Aside from the question of whether our economic knowledge is such as to warrant reaching such an embracing judgment by multilateral negotiation, I would personally doubt whether the circumstances warrant European dollar holders taking such stern action, for the action in itself would have far-reaching implications and accordingly widespread effects on world markets. We have tried to make clear a full awareness of our payments deficit problem and a determination to adapt our national policies so that the problem is in reasonable time resolved. A main intention of the President's recently announced program was to make that determination manifest.

By the way, some pertinent discussion of the European borrowing operations of the U. S. Treasury is contained in an article titled, "Conversations on International Finance," being published in the current Monthly Review of the New York Federal Reserve Bank. Its preparation was a collaborative effort of Messrs. Coombs of that Bank, Iklé of the Swiss National Bank, Ranalli of the Bank of Italy, and Tüngeler of the Bundesbank. They are all well known to you and I am sure you will find their observations on this matter interesting and helpful.

I hope that, when you are in Washington for the International Monetary Fund meetings, you can find time not only to visit us but also to discuss with our staff the over-all borrowing program of the U. S. Treasury and its policies with regard to "long-term borrowing in the domestic market." I think you will find from such a review that this is what the U. S. Treasury has been accomplishing--by the method of borrowing new cash short and refunding maturing debt long by the pre-refunding technique. I personally find much to be gratified about in the way our Treasury's financing is currently being managed, and I think Secretary Dillon and Under Secretary Roosa deserve a lot of credit for it.

The information you give about reactions to the President's balance-of-payments program is, on the whole, heartening. Your comments about the Euro-dollar market and its possible behavior are especially illuminating to me, because we on this side have too little understanding of it.

Your reactions to the interest equalization tax are very much along lines of my own thinking--attractive from the standpoint of theory but with many difficulties in practice. The U. S. Treasury, after wrestling with alternatives--including the deflationary steps necessary to raise long-term interest rates by a full percentage point and the difficulties, under U. S. market conditions, of selective administrative control of foreign issues--came to the conclusion that the tax approach offered most advantages in terms of balance-of-payments necessities and goals. The Treasury felt that the decision once made had to be closely kept until announced. Also, upon announcement, the Treasury had to be prepared to make adaptations in its plan to provide for specialized operating problems and unintentionally severe impacts. These matters have been a preoccupation of the Treasury in the last few weeks.

Let me say a word about the three ghosts you mention, because we are not really so plagued by them as you suggest. In the first place, Congress has demonstrated a capacity to adapt the debt ceiling as conditions warrant, and, to protect the Government's credit, will in my judgment always lift the limit, however reluctantly, in good time. Second, the ceiling on interest payable on Federal Debt has been with us since the Liberty Loan Act of April 24, 1917 and, while, at certain times, it has seriously handicapped Treasury debt management policy, this has only been for relatively short periods. (Nevertheless, I think it should be changed as its inhibitions are a drag on longer-term finance.) Third, the gold cover requirements of the Federal Reserve Act, which are subject to temporary suspension by the Federal Reserve Board, if necessary, are not in fact the barrier they may literally seem and should not prove inhibiting to appropriate U. S. monetary policy. On the whole, I personally doubt that the U. S. has been shackled very much in pursuing a dynamic economic policy by virtue of their existence. And, while they are an administrative nuisance of a sort, they do serve as a focus for political discussion and debate about basic financial issues that ought to receive public attention and this is in their favor.

Before closing, I should like to comment briefly on the recent U. S. performance with regard to prices and costs, because it has been, I think, perhaps a little better than you have thought. Since 1959, our wholesale prices of finished industrial products have been stable, and, considering the improvement in quality of many products, there has probably been some real decline in these prices. Furthermore, prices of industrial materials are 2 per cent lower than four years ago.

As regards costs in the manufacturing sector, labor costs per unit of output, apart from moderate cyclical changes, have changed little since 1959. Over postwar years, however, improvement in the behavior of unit labor costs in manufacturing has been progressive. Comparisons over time, made in such a way as to abstract from cyclical fluctuations, show that unit labor costs in manufacturing rose 15 per cent from 1948 to 1953, 8 per cent from 1953 to 1957, and about 1 per cent from 1957 to 1959-60. Underlying this shift in behavior is a persistent--perhaps, accelerated--advance in output per manhour and a progressively less rapid pace of increase in wage rates and fringe benefits. Output per manhour increased at an annual rate of 3 per cent from 1947 to 1959 and at a rate of 3-1/2 per cent since then. Hourly earnings, after some allowance for fringe benefits, rose at an annual rate of 9 per cent in 1947-48, a rate of 5 per cent in 1955-57, and a rate of about 3 per cent since 1959. A few recently negotiated labor contracts in major manufacturing industries suggest that currently the annual rate of increase in hourly earnings is running a little less than 3 per cent.

I mention this because of your statement that our gains in competitiveness had not yet been sufficient to reestablish equilibrium, implying, I infer, that financial policies strong enough to bring about a progressive decline in our industrial price level might better have been applied. Such a course of policy would have involved a broad-scale curtailment of domestic demand. This would have risked a downward force on industrial production greater than on prices. There would also have been a risk that any balance-of-payments gain would have come through a reduction of imports rather than an appreciable expansion of exports. Such a policy course, moreover, would have affected unfavorably output per manhour, tending to reduce manhour output in the short run and slow its growth over the longer run.

One naturally wonders about the total repercussions, political as well as economic, of such a financial policy and whether the eventual solution to the balance-of-payments problem might not have been one highly disruptive of present international financial and political relations. It has seemed to me a much better approach for us to have followed policies to employ our normal additions to resources and absorb as well some resources that are unemployed, while endeavoring to accelerate the advance in our economy's productivity.

This reply to your letter has run into more pages than I had originally intended, but the matters under discussion are of vital interest and we both seek as much clarification and understanding as it is possible to attain. And, of course, all of us here share your hope that the early future will reveal that the U. S. is now making concrete gains toward a better payments balance internationally.

With warmest personal regards,

Faithfully yours,

(Signed) Bill

Wm. McC. Martin, Jr.

Enclosures 3

cc: Under Secretary Roosa, Treasury

RAY:CM:cbd
8/7/63

COMMUNIQUE

The Governors of the Central Banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States met in Washington on March 16 and 17, 1968 to examine operations of the gold pool, to which they are active contributors. The Managing Director of the International Monetary Fund and the General Manager of the Bank for International Settlements also attended the meeting.

The Governors noted that it is the determined policy of the United States Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the U.S. balance of payments is a high priority objective.

They also noted that legislation approved by Congress makes the whole of the gold stock of the nation available for defending the value of the dollar.

They noted that the U.S. Government will continue to buy and sell gold at the existing price of $35 an ounce in transactions with monetary authorities. The ~~Governors~~ Ministers support this policy, and believe it contributes to the maintenance of exchange stability.

The Governors noted the determination of the U.K. authorities to do all that is necessary to eliminate the deficit in the U.K. balance of payments as soon as possible and to move to a position of large and sustained surplus.

Finally, they noted that the Governments of most European countries intend to pursue monetary and fiscal policies that encourage domestic expansion consistent with economic stability, avoid as far as possible increases in interest rates or a tightening of money markets, and thus contribute to conditions that will help all countries move toward payments equilibrium.

The Governors agreed to cooperate fully to maintain the existing parities as well as orderly conditions in their exchange markets in accordance with their obligations under the Articles of Agreement of the International Monetary Fund. The Governors believe that henceforth officially-held gold should be used only to effect transfers among monetary authorities and, therefore, they decided no longer to supply gold to the London gold market or any other gold market. Moreover, as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market. Finally, they agreed that henceforth they will not sell gold to monetary authorities to replace gold sold in private markets.

The Governors agreed to cooperate even more closely than in the past to minimize flows of funds contributing to instability in the exchange markets, and to offset as necessary any such flows that may arise.

In view of the importance of the pound sterling in the international monetary system, the Governors have agreed to provide further facilities which will bring the total of credits immediately available to the U.K. authorities (including the IMF standby) to $4 billion.

The Governors invite the cooperation of other central banks in the policies set forth above.

March 17, 1968

GROUP OF TEN

Stockholm, 30th March, 1968.

DRAFT

Communique of the Ministerial meeting

of the Group of Ten

on March 29-30th 1968, in Stockholm

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1. The Ministers and central bank Governors of the ten countries participating in the General Arrangements to Borrow met in Stockholm on 29-30th March, 1968, under the chairmanship of Mr. Krister Wickman, Minister for Economic Affairs in Sweden. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund , took part in the meeting, which was also attended by the President of the Swiss National Bank, the Secretary-General of the O.E.C.D. and the General Manager of the B.I.S.

2. Ministers and Governors first discussed the international monetary situation and, second, they considered a report by the Chairman of their Deputies on a Proposed Amendment to the Articles of Agreement of the I.M.F. which has been following ~~drawn up in~~ accordance with a Resolution of the Board of Governors of the I.M.F. adopted at the annual meeting of the Fund in Rio de Janeiro last September. This Amendment relates to the scheme for special drawing rights in the Fund, the Outline of which was approved at that meeting, and to improvements in the present rules and practices of the Fund.

3. As regards the first point, Ministers and Governors expressed great satisfaction with the action measures taken by the United Kingdom which is ~~are~~ designed to achieve a substantial overall surplus in the United Kingdom's balance of payments by 1969. They ~~stressed the~~ also took note

with an equal satisfaction of the declaration made by the

very great importance of early action by the United States, through

Secretary of Treasury of the U.S. stressing how much the

appropriate fiscal and monetary measures to improve its balance of payments substantially.

U.S. is conscious that an early action through app

fiscal and monetary measures to substl improve its value of par is necessary and that this objective by the President of the US

This objective ~~has to be~~ is given the highest priority, in the interests not only of the United States' economy, but also of the general stability of the international monetary system.

4. The Ministers and Governors reaffirmed their determination to co-operate in the maintenance of exchange stability and orderly exchange arrangements in the world, based on the ~~existing~~ present / official price of gold. While SDRs

4. As regards the second point, the Ministers and Governors noted with appreciation that the Executive Directors of the I.M.F. had successfully resolved most of the problems that had arisen in the course of their efforts to carry out the task entrusted to them and that they had reached the final stage of their work. The Ministers and Governors settled the ~~remaining~~ points of difference between them and agreed to give the necessary authority to the Executive Directors of their countries, so that, in co-operation with those of other countries, they will be able to complete the final draft of the proposed Amendment.

They took note that this proposed Amendment will be attached to a Resolution which will be transmitted to the Board of Governors of the I.M.F. with an explanatory Report and that Governors will be requested to vote by correspondence as is the usual practice of the Fund.

The Ministers and Governors noted that the Managing Director of the Fund was confident that the Executive Directors would be able to transmit these documents to the Board of Governors within a brief period.

One Delegation did not agree ~~with~~ the views expressed above.

They consider that while the scheme to est SDRs in the IMF referred to in the next ¶ and on which they have now agreed, will not provide a sol to all int non problems it will make a very subst contr. to ~~improve the~~ monetary system. Moreover they intend to extend the close cooperation between Govts as well as CBs to preserve stability world money conditions in the near future.

July 20, 1967

MEMORANDUM OF CONVERSATION

Participants: France: Michel Debre, Minister of Economy and Finance
One staff assistant

U.S.: Secretary Fowler
Chairman Martin
Mr. Dale

Time and Place: 9:15 a.m., Tuesday, July 18, 1967
Secretary Fowler's Suite, Claridge's, London

Subject: Reserve Creation and Meeting of Group of Ten Ministers and Governors

SECRETARY FOWLER began by saying that he was sorry it was necessary for him to depart from the meeting of the Ministers of the Group of Ten that afternoon at about 5:00 p.m. but it was necessary for him to be in Washington the following morning due to important commitments related to fiscal problems in the United States.

MINISTER DEBRE said he understood that and was also sorry that it was necessary. He asked what Secretary Fowler would think of the possibility of a further meeting of the Group of Ten Ministers during the first week in September. This would be preceded by further work by the Deputies of the Ministers. It was his feeling that during the coming morning session of the Ministers and Governors there would be a rather difficult discussion of the important subject of reconstitution, probably without a clear and agreed result. Then there would be a rather relatively short afternoon discussion, covering further comments on decision-making and other important matters. It would be too bad to have the meeting break up in disagreement.

SECRETARY FOWLER said that he would be prepared to go anywhere, at any time, to discuss these matters with any Minister or individual if that would advance the objective of reaching an agreed solution.

MINISTER DEBRE expressed the view that it would be highly desirable to arrive at a solution of this matter at Rio. Further meetings of the G-10 Deputies would be helpful in this connection. He felt that our positions are still very far apart. However, he agreed as to the necessity to achieve an agreed result at Rio. He then hesitated, and added that perhaps it was not a necessity, but we all had a great duty toward public opinion in this matter, and everyone was tired of the very long and arduous negotiations which had been involved. Certainly it would be much better to come to a conclusion at Rio, even if that were not absolutely necessary. He could not agree with Secretary Fowler's analysis of the broad aspects of the liquidity controversy, and in his opinion this analysis was not right; but at the same time he had a high admiration for all of the hard work of the Secretary and his colleagues on this matter and for the sincerity of the position resulting from this work. He was, in any event, rather fearful that the whole thing could not be resolved by 5:00 p.m. today and he hoped that some way could be found to provide for a method of continuing to search for agreement.

SECRETARY FOWLER agreed that we must find a procedure to end the negotiations and to come to an agreement on as wide a basis as possible. He would be willing to postpone the gall bladder operation which his physicians had advised and to come back to London in early August or in early September, or whenever would be a mutually acceptable and convenient time. He would also support further meetings of the Deputies. He would have for the afternoon session of the Ministers' and Governors' meeting some procedural suggestions as to how we can arrange for further work and discussions in a spirit of respect for each other's positions and in an atmosphere of dignity.

MINISTER DEBRE indicated that the French agree on a scheme for creation of drawing rights with a clear and real reconstitution feature for the first five years. There are, however, other problems including the majority for decision-making and still others of great importance. The main thing is that the French wholly agree to give their best efforts to try to have an agreed solution by September. He urged Secretary Fowler not to think that France is trying to have no solution by that time.

SECRETARY FOWLER indicated that he understood the political problem which Minister Debre is facing. In his opinion, when countries find themselves in conflict reflecting important substantive differences, they must find a dignified procedure with which to resolve those differences in respect for the sincerity with which the different viewpoints are held. He felt that we must find a procedure which will enable us to reach an agreed solution in a genuine spirit of give and take. Such an agreed solution would of course not involve the imposition of the will of one side on the other.

MINISTER DEBRE said that he believed from the bottom of his heart in the desirability of having an acceptable agreement in Rio. He recognized that it takes time to draft such an arrangement into legal language and to ratify. He would do everything possible to facilitate reaching such an arrangement, but it must be recognized that there are basic philosophical differences between our approaches to this matter.

SECRETARY FOWLER recognized these important differences, but he felt that the mental approaches of Minister Debre and himself toward their responsibilities are quite similar. In any event, he would be ready to meet at any reasonable time and, as he had mentioned, would have procedural suggestions to this end.

MINISTER DEBRE felt that the discussion in the ensuing morning session would pose difficulties. However, it would be useful if in the formal meeting in the afternoon agreement could be reached on a procedure to continue the discussions later. It would be desirable to identify problems on which resolution would be needed, and to be quite frank about the nature of these problems and the work to be done. He suggested that this matter be introduced for discussion around an hour or so before it was necessary for Secretary Fowler to leave, so that adequate discussion and resolution of these procedural matters could be accomplished.

SECRETARY FOWLER observed that he had proposed that there be a minimum and maximum amount established for drawing rights creation in the first basic period. The French and Americans could find common ground in that, since a maximum would be useful to us both. His view was that a modest amount of drawing rights creation should be tried for four or five years, and then experience would permit a "further slice at it".

MINISTER DEBRE observed that the U.S. view is that whatever the situation of the U.S. balance of payments deficit, there is a shortage of international liquidity. On the other hand, the French think there is no shortage so long as a U.S. deficit continues. Their view is that activation of liquidity creation is not urgent, because the first priority problem for the international monetary system is the U.S. deficit.

SECRETARY FOWLER responded that the United States felt there were three legs to the international monetary problem. One is the U.S. deficit, the second is the need for adequate international liquidity, and the third is the continued conversion facility into gold of U.S. dollars, which gives the fixed exchange rate system its base. These are the three elements of stability in the system.

MINISTER DEBRE responded that he felt there was a practical problem, which was not related to differences of doctrine. It was the French view that the U.S. balance of payments deficit is a main reason (though he conceded it is not the only one) for a general feeling of lack of confidence. It was his view that relatively large amounts of gold would come into official reserves if this one destabilizing factor were set straight.

SECRETARY FOWLER stated that the United States recognizes this source of instability and feels it more strongly than the French do, or at least more strongly than the French think we do. The reduction and elimination of the U.S. deficit has the highest priority with the United States. The two high priority economic matters with the U.S. Government are the deficit in the budget and the balance of payments due to the conflict in Viet-Nam. It was his conviction that with the end or the de-escalation of the conflict in Viet-Nam we would go into equilibrium or surplus in the balance of payments.

MINISTER DEBRE said that when the French were in conflict in Algeria for a period of six years, there were three years of French balance of payments deficit, followed by three years of French balance of payments surplus. Even when there were military conflicts of this sort, in his opinion the position of the balance of payments is simply a matter of discipline.

SECRETARY FOWLER repeated that there were two economic problems which were receiving the highest priority in the United States--the balance of payments and the budget deficit. It was his intention to do everything reasonably possible to deal with them and to eliminate them.

MINISTER DEBRE mentioned that his third problem is interest rates. He very much hoped that the evolution of economic conditions, especially in the United States and the United Kingdom, would not be such as to require renewed increases in interest rates, because that would require French interest rates to rise also. It was his hope, for many reasons, that this would not be necessary.

With that, the meeting ended, since it was necessary to travel to Lancaster House for the beginning of the meeting of Ministers and Governors.

WBD

William B. Dale

Approve: HHF

Approve as amended:

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 12/1/67

To Chairman Martin

From J. Dewey Daane

These are the Carli proposals which he passed out at Frankfurt. Thus far they have had no other distribution.

CONFIDENTIAL

LIMITED DISTRIBUTION

25 novembre 1967

(A)

Continuation of the "gold pool"

1. The US Treasury will continue to sell gold at the existing price of USA $ 35 an ounce.

2. The US Treasury will put at the disposal of the pool the entire amount of its "free" gold. The US Government will immediately introduce the necessary legislation in order to abolish the obligation of the 25 per cent gold cover.

3. Central banks which are acting members of the pool will abstain from converting into gold future increases of their dollar holdings (1)

4. All acting members of the pool will abstain, until further notice, from buying gold from whatever source, except among themselves or from the IMF. However, the Bank of England will continue to buy gold on the London market for the pool at a price equal or below (35 - X) dollars an ounce, (X) being substantial.

5. This understanding is open to all gold holding countries. However, future members will have to share in the obligation of the scheme to the same extent that they would have done if they had adhered to it from the beginning.

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(1) This obligation can be limited either in time (i.e. for the next 6 months) or in amount (the same amount that the US Treasury puts at the disposal of the pool in gold). Central banks will consult among themselves on the sharing of this obligation (for instance through harmonisation of gold ratios)

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LIMITED DISTRIBUTION

25 novembre 1967

Discontinuation of the gold pool through separation of the gold market from the official sector

1. Gold holding countries participating in the scheme will buy and sell gold at the existing price of USA \$35 an ounce only among themselves and from/to the IMF. They will abstain from any other gold transaction. However, the Bank of England might be authorized to buy gold on the London market for the account of the participants at a price equal or below (35 - X) dollars an ounce, (X) being substantial.

2. This engagement will have two consequences:

a) the Bank of England will cease to intervene in the London market, except as provided above.

b) the US might have to cease to buy dollar balances held by non-members of the scheme. However, the US will respect Art. VIII, Sect. 4 of the IMF articles if it continues to buy from non-members of the scheme dollar balances recently acquired as a result of current transactions and whose conversion is needed for making payments for current transactions.

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