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Washington, D.C.

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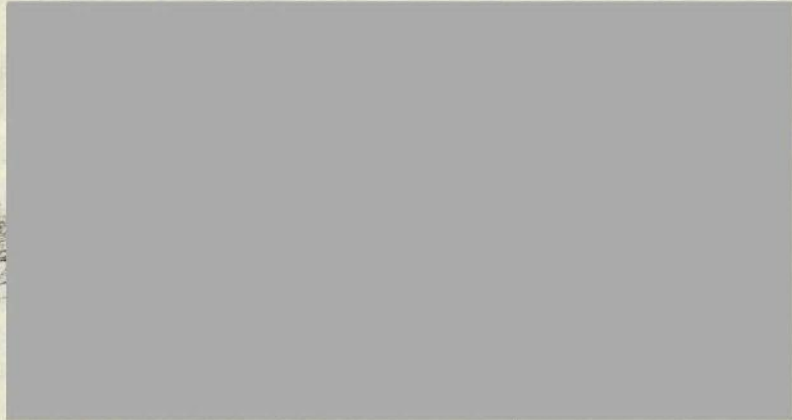
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United States Government Agencies - Foreign Aid - Export Rehabilitation
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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FROM: THE SECRETARY

December 31, 1948

EUROPEAN RECOVERY PROGRAM

Attached is a statement recently received from France summarizing the economic results obtained during the first six months of European Recovery Program. It is entirely unofficial.

Distribution:

Executive Directors and Alternates
President
Vice President
Department Heads
Assistant Loan Director
Assistant Director of Economic Department
Chief Loan Officers of Loan Department
Financial Adviser of Loan Department
Consultant to Director of Economic Department
Chiefs of Divisions of Economic Department

I. ECONOMIC RESULTS OBTAINED DURING SIX MONTHS OF E.R.P.

1. Production

The clearest indication of the improvement in the French situation since the beginning of E.R.P. operations is a 16% overall increase in industrial production compared with the first half-year of 1947 and 15% if compared with that of 1938. Of course, this result is due to American aid, but its success was brought about by French effort since French imports have not increased in relation to 1947, neither from the dollar zone nor in total volume.

With regard to agricultural production, thanks to favorable weather conditions, output has gone up exceeding in some instances that of 1938.

2. Prices

Though prices continued to rise in 1948, there are signs which would tend to modify the impression one gets reading the statistics. First, price increases since April have been much less marked than during the corresponding period of 1947, despite the fact that many prices are now free which had formerly been controlled. Second, the price of certain foodstuffs, notably vegetables, tend to become stabilized and even decrease in some instances. Finally, the disparity between farm and industrial prices, much in evidence during 1947, has been greatly reduced. It is a sign of returning economic equilibrium when indices begin to balance one another.

II. THE IMPORTANCE OF AMERICAN AID

It should be emphasized that contrary American beliefs notwithstanding, E.R.P. aid to France has in no way increased the amount of her available dollars in relation to previous years, so that imports from the dollar zone have not been greater in comparison with the 1947 figures. American aid has simply taken the place of dollars we had until last year and which came in part from our own gold and dollar reserves, now exhausted, and in part from dollar credits such as the loans from the Export-Import Bank and the International Bank.

The principal feature of the American aid is that most of it is in the form of grants and thus will not weigh so heavily on future balances of payments.

III. FINANCIAL SITUATION

1. 1948

It is well to point out that despite many Government changes, which might well have given rise to pessimism in the field of finance, ordinary budget revenue and expenditure in 1948 will be balanced and there is even a possibility of a slight surplus. Current Treasury estimates are for a total expenditure of 962 billion francs and for a 990 billion revenue, including receipts from the Autonomous Amortization Fund. This financial recovery was made possible by the new taxes proposed by the Queuille Government yielding another 80 billion francs. And this can be achieved in spite of the very serious consequences of the miners' strike which reduced direct tax receipts and especially the production-tax; moreover, the strike ruled out the possibility of collecting on two types of gasoline markets, the introduction of which would have required additional motor-fuel imports; such imports had to be abandoned for the sake of increased purchases of foreign coal.

Regarding expenditure on reconstruction and equipment and also Treasury operations, we have been blamed for financing them through inflationary methods, namely by Treasury bills subscribed by deposit banks. In this connection, it may be remarked that while it is correct to consider all bank credits in England and in America as being additional purchasing power, the same doesn't hold for France where a large number of deposits are in reality savings accounts, therefore American criticism is only partially valid.

We are also blamed for resorting too lightly to the system of special Treasury accounts which is an easy way to solve financial problems and removes

a substantial part of our expenditure from Parliamentary control. It should be noted here that a draft bill on special accounts will soon go to the House making them subject to the control of Parliament; moreover, some of these accounts will be abolished.

2. 1949

The financial plans of the Queuille Government (law of "Maxim") provide for a balanced budget and also for meeting all expenditure on reconstruction and equipment out of: (1) the counterpart of the American aid, estimated at 280 billions in 1949 (indirect aid not included); (2) taxes and (3) loan. The Government has given up easy finance practices, namely such inflationary methods as the rediscount of Government securities by the Bank of France and subscription of Treasury bills by deposit banks, practices which have been held against us.

According to present Government plans, the receipts under the head of supplementary taxes or loans will be about 237 billion francs.

IV. GENERAL SITUATION

If the French situation appears bad in some respects and the effort made in 1948 seems insufficient, it should nevertheless be remembered that the country has just emerged from an extremely serious political and social crisis brought about by the miners' strike.

It surprised many observers of the French scene that a strike lasting several weeks had in no way upset the country's economy; this fact is a clear indication that France is strong again and has recovered its economic equilibrium. Moreover, it should be pointed out that the strike, to some extent at least, was due to Communist apprehensions called forth by improvements in the French situation which in turn were determined by the beneficial effects of the American aid.

V. EUROPEAN ECONOMIC COOPERATION

1. Long term programs

A serious disagreement has developed between France and England during the discussions of the Economic Organization of European Cooperation relative to long-term programs (1952-53). The French envisage considerable exports to the United Kingdom and are opposed to the British idea of "commonwealth autarchy" which would make the sterling extremely scarce; the French are equally opposed to England's austerity policy forbidding the entry into England of a great number of French commodities.

England is reluctant to discuss the alignment of French and British programs as long as the French domestic situation in matters of finance has not been clarified.

2. 1949-50 Programs

English experts are ready to find fault with France's 1949-50 program because they deem it too ambitious for two reasons: (1) agricultural production increases are too high, and (2) the estimated French exports to the dollar zone are also too aspiring.

It is recalled that the amount of American aid requested by France for 1949-50 is \$890 millions only, instead of the originally planned \$989 millions. It is equally expected that the indirect aid granted by the other participating countries will be substantially reduced.

VI. BALANCE OF PAYMENTS

Our balance of payments is very largely in the red and great efforts must be made to re-establish an equilibrium in the sense of increased exports. However, it cannot be overemphasized that in this field the solution of our difficulties does not depend on us alone, but also on other countries having

potential markets for our products; whatever efforts French industries may make and whatever technical means the Government may use to help them, the difficulties can only be fully met within a framework of close economic cooperation with European nations; it is clear that the position currently held by Great Britain contributes in no small degree to aggravate our problems

E.C.A.

FILE COPY

Mr. Martin M. Rosen

December 17, 1948

R. F. Skillings

Report of Senate Watchdog Committee

The ECA Watchdog Committee Report referred to by the press was a confidential report released in error. We are informed by Mr. Charles Dewey's office of the Senate Committee that it will be included in a more comprehensive report to be published next month. At the present time copies of the preliminary findings are not available. We have requested that copies of the full report be sent to the Bank.

eg
cc Mr. C. C. Hamilton

x Senate Watchdog
Committee

CROSS REFERENCE SHEET

COMMUNICATION: Letter and attached memorandum

DATED: December 10, 1948

TO: Mr. Garner

FROM: Mr. S. W. Anderson
Director Industry Division
Economic Cooperation Administration

SUMMARY: Re proposal for private and government collaboration in
European electric power projects.

FILED UNDER: International Electric Power Projects

CROSS REFERENCE: E. C. A.



Record Removal Notice

File Title United States Government Agencies - Foreign Aid - Export Rehabilitation Project [ERP] and Economic Cooperation Administration [ECA] - Correspondence		Barcode No. 1071210		
Document Date Dec. 10, 1948	Document Type Memorandum			
Correspondents / Participants From: Crena de Iongh To: Mr. Garner				
Subject / Title Proposed letter from the Administrator for Economic Cooperation and Export Import Bank of Washington with regard to the Relative Priorities of ECA Loans and Bank Loans				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Ann May</td><td>Date April 08, 2022</td></tr></table>	Withdrawn by Ann May	Date April 08, 2022
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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 12/10

TO-	Name	Room No.
1	Mr. Webber	313
2	Mr. Richardson	313
3	Central Files	310
4		

FOR-	Action	Initialing
	Approval	Preparing Reply
	Comment	Previous Papers
	Filing	Noting and Returning
	Full Report	Recommendation
	Information	Signature

REMARKS

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FROM-

Loren

E. C. A

ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

Rec. DEC. 10.

Mr. Martin M. Rosen
International Bank for
Reconstruction and Development
Washington 25, D. C.

Dear Mr. Rosen:

Thank you very much for your nice letter of November 29. I much appreciate your cooperating in sending us the three papers. These will, I think, prove to be very interesting, especially to our Strategic Materials Division under Mr. Harwood. Mr. Just and I will take occasion to turn them over immediately to them.

I hope we will see each other sometime soon. I remember with great pleasure the most interesting morning we spent together.

It seems to me the outcome of the payments scheme has been a most happy one and hope that it will perform all that is expected of it.

Sincerely yours,



S. W. Anderson
Director
Industry Division

ECONOMIC COOPERATION ADMINISTRATION

WASHINGTON 25, D. C.

Mr. Rosen

Mr. Martin M. Rosen
International Bank for
Reconstruction and Development
Washington 25, D. C.

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Sincerely yours,



S. W. Anderson

Director

Industry Division

E.C.A.

FILE COPY

Mr. Paul N. Rosenstein-Rodan

December 7, 1948

Robert F. Skillings *RFS*

Report of Senate Watchdog Committee

The report referred to in the telegram from Lieser is apparently a confidential report on progress to date which was released recently in error. We are informed by Mr. Charles Dewey's office of the Senate Committee that it will be included in a more comprehensive report to be published next month. At the present time copies of the preliminary findings are not available. We have requested that copies of the full report be sent to the Bank.

RFSkillings/eg

✓
X U.S. Gov.
Senate Watchdog Comm.



ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

CABLE ADDRESS
ADECA

E.C.A.

December 1, 1948

Mr. F. Jockin
International Bank for Reconstruction
and Development
Loan Department
1818 "H" St., NW
Washington, D. C.

Dear Mr. Jockin:

✓ *Nov 29*

Thank you very much for the copies of three memoranda prepared in the Bank's Economics Department and dealing with transport problems affecting raw material exports from the British Commonwealth which you were kind enough to send us. We are very glad to have them for our file and hope to be able to discuss them with you at a later date.

Yours very truly,

E. L. Ripps

E. L. Ripps

608

November 29, 1948

Mr. Samuel Anderson
Industry Division
Economic Cooperation Administration
Washington, D. C.

Dear Mr. Anderson:

I understand that in recent conversations with Mr. Garner you have discussed the urgency of projects to break transport bottlenecks impeding export of vital products in African colonies of the participating countries. I believe you have already seen one of our short memoranda on this question. Members of our staff have considered this matter further and have prepared several other interesting memoranda. I am, therefore, enclosing for your use three notes on this subject prepared in the Bank. These are being made available, in accordance with the usual arrangements between ECA and the Bank, on a staff basis since we have not circulated the memoranda officially to any of the member governments of the Bank.

Very sincerely yours,

Martin W. Rosen

- Enclosures: "Transport Bottlenecks to Raw Material Exports in British Empire Areas"
- "Transport Bottlenecks to Rhodesian Mineral Exports"
- "Transport Bottlenecks to Exports of Nigerian Groundnuts"

P. S. I regret that I have not had a chance to congratulate you personally on the missionary job which I am sure you performed after returning from Paris on the famous question of transferability of drawing rights. Our discussion with you and Mr. Bruce on this matter in Paris was the pleasant spot of the trying weekend in which this problem reached its crisis stage.

MWR
MMRosen:amg

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 11/29

TO-	Name	Room No.
1	Messrs Rist 417	306
2	Podan	308
3	Archives	309
4		

FOR-		
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Approval		Preparing Reply
Comment		Previous Papers
Filing		Noting and Returning
Full Report		Recommendation
Information		Signature

REMARKS

Rosen
 Copia should go
 to farner ✓
 Hoar - ✓
 C. A. Toph ✓
 Legal Meffain ✓

OK

FRU... Rosen

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ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

Loan Policy
E.C.A.
CABLE ADDRESS
ADECA
RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL BANK FOR EUROPE
NOV 24 8 25 AM '48

NOV 24 1948

Mr. Martin M. Rosen
Acting Chief Economist
International Bank for
Reconstruction and Development
1818 H Street, N. W.
Washington, D. C.

Dear Mr. Rosen:

Reference is made to discussions which you have had with members of the ECA concerning the possible provision of dollars by the International Bank under its loan agreements to finance the purchases by one member of the Intra-European Payments Agreement in the territory of another member.

As you well know, one of the basic concepts of the Payments Agreement was to reduce increasing dependence of intra-European trade upon the use of dollars. The Plan is now in operation and ECA is no longer providing dollars to finance the movement of goods from one member country to another. It is our assumption that the drawing rights under the Payments Plan are adequate to permit a substantial volume of trade to take place between the countries participating in the Plan.

You have, no doubt, considered the use of the local currency paid into the International Bank by members of that institution in connection with their subscriptions.

The use of such currency in trade between participants of the Payments Scheme would, of course, not be inconsistent with the principles and operations of the Agreement.

I must advise you that these are our initial reactions to the questions which you have raised with us.

I would welcome further talks with you upon my return from Europe, with particular reference to any particular loan operations which might involve the use of dollars to finance trade among European countries participating in the Payments Agreement.

Sincerely yours,

Richard M. Bissell, jr.
Richard M. Bissell, jr.
Assistant Deputy Administrator



ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

NOV 26 8 44 AM 1948

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS
IBRD

NOV 24 1948

Mr. Martin M. Rosen
Acting Chief Economist
International Bank for
Reconstruction and Development
1815 H Street, N. W.
Washington, D. C.

Dear Mr. Rosen:

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participating in the Payments Agreement.

Sincerely yours,

Richard M. Bassett, Jr.
Richard M. Bassett, Jr.
Assistant Deputy Administrator

C
O
P
Y

ECONOMIC COOPERATION ADMINISTRATION

Washington 25, D. C.

November 24, 1948

Mr. Martin M. Rosen
Acting Chief Economist
International Bank for
Reconstruction and Development
1818 H Street, N. W.
Washington, D. C.

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Sincerely yours,

/s/

Richard M. Bissell, jr.
Assistant Deputy Administrator

CROSS REFERENCE SHEET

DOCUMENT: LETTER

DATED: 23 November, 1948

TO: Mr. Walter Hill
IBRD Representative, Paris

FROM: Mr. L.B. Rist

SUMMARY: Regarding OEEC and ECA views on Bank Policy in European Operations. Suggests Mr. Hill discuss with M. Ansiaux of OEEC.

FILED UNDER: IBRD REPS. - W. HILL

CROSS REFERENCE: Loan Policy
OEEC

Mr. L. B. Rist

November 23, 1948

M. M. Rosen

The ECA Experience with Guarantees

Certain experiences of ECA in connection with its \$300 million guarantee program may be of interest to the Bank in connection with the present study of alternatives to the proposal that the Exim Bank lending authority be increased by \$500 million in order to promote its Latin American activities.

Legislative Provisions for Guarantees

Provision was made in the legislation that \$300 million of the \$1,000 million loans could be in the form of guarantee of private investment. This guarantee was limited to the right to convert into dollars the income from the investment or repayment of the amount of the investment; but the total conversion right guaranteed by ECA could not exceed the amount of actual dollar investment in the project. As a result of the Mundt Amendment, \$15 million of the \$300 million was set aside for the promotion of informational activities (newspapers, magazines, etc.). The guarantee was limited, of course, to an exchange guarantee applicable until 1962, and did not in any way ensure the profitability of the venture in terms of local currency.

ECA Experience

Although ECA has been literally deluged with applications by private investors who desire to secure the advantages of the guarantee clause, so far only one transaction has been completed, the guarantee of a carbon black plant in the UK. (Several of the informational projects are in the final stages of completion, but they are of such a special character that they do not form precedents of interest to the Bank.) The slowness with which guarantee projects have been approved is the result of a combination of factors. The most significant is the fact that a guarantee project under the ERP Act does not mean additional funds but merely substitutes for other funds which would have been made available, probably on better terms. When ECA advised OEEC to make dollar allocations to the participating countries on the assumption that \$4875 million would be available for the fiscal year 1948-49, it did not withhold the \$300 million in guarantees. Thus, the amount allocated by OEEC to any country was, necessarily, completely programmed by that country with a detailed import program for the full amount of the dollars to be made available, including grants and loans (and guarantees, if any). Thus, a private American investor with a new investment proposal, not originally programmed, no matter how good that proposal might be, had to be able to fit the investment proposal into the original import program or get part of the import program adjusted to fit the new scheme. The new proposal did not result in any new funds coming into the country since it merely substituted for part of the \$4875 million which would otherwise have been allocated on a grant or loan basis.

All of the participating countries would, naturally, prefer to receive their ECA dollars on a grant basis. Most of them would also prefer direct governmental loans, at only 2½% interest, long maturity, and waiver clause, to the direct investment of private American capital.

The manner in which the guarantee provision was legislatively framed and administratively implemented effectively eliminated any incentive to the country in which the investment was to be made. From my informal observations in Paris, however, it was clear that the countries would be interested in guarantees, provided it meant the receipt of additional funds supplementing those they would otherwise get on a direct loan or grant basis. For example, Austria has several hotel construction and repair projects in connection with the expansion of its tourist trade for which investment on a guarantee basis would be interesting both to the investor and to Austria. Inasmuch, however, as Austria is assured of its total ECA allocation, at least for the first year, on a completely grant basis, it naturally did not wish to reduce the amount of its grants in order to have guarantees. If it could receive the guarantees in addition to the direct allocations, that would be a completely different story.

Types of Projects

One principle that became clear from an examination of the kinds of projects which were advanced by American investors is that the guarantee provision tends to distort investment away from the more important economic outlets into consumers goods production of the sort which would not help solve the balance of payments difficulties of the country. For example, applications have been made for the guarantee of investment in Coca Cola bottling works in each of the participating countries. There is no question that a considerable amount of Coca Cola could be sold in France, Italy, or other countries at prices which would be quite profitable in terms of francs and lire. Such investment, however, would not help the future balance of payments of France or Italy one bit, since the Coca Cola would be consumed locally and not exported, and does not even serve to replace items which otherwise would have to be imported. With inflationary conditions existing in many parts of the world, expansion of production of consumers goods is likely to be profitable in the short run in terms of the local currencies of the countries involved. But the profitability of these consumers goods industries is due to the very policy of the government in restricting imports of similar consumers goods and diverting investment to more important lines of economic activity.

As long as the present distortion of exchange rates on the one hand, and of the internal price structure on the other, exists, it is reasonable to believe that elimination of the "foreign exchange transfer" problem alone, without freeing the whole price-exchange mechanism, would probably result in guidance of investment into improper channels.

Conclusions

For the guarantee provision to be of interest to the country in which the investment is to be made, it must result in the inflow of capital additional to that which would otherwise have occurred if there had not been any guarantee. Investment projects suggested must be carefully screened to ensure their fundamental productivity in terms of earning or saving of

foreign exchange and not merely their profitability in terms of the domestic market of the country in which the investment is to be made.



E.C.A.
CABLE ADDRESS
ADECA

ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

November 23, 1948

Ex *mla*

Mr. A. S. G. Hoar
Assistant Loan Director
International Bank for Reconstruction
and Development
Washington 25, D. C.

My dear Hoar:

Thank you for your note of November 19 ✓
enclosing a copy of a memorandum on transport
bottlenecks in British Empire areas.

I read this report with great interest
and am passing it on to my U. K. man for his
information.

Sincerely,

E. T. Dickinson, Jr.
Director
Program Coordination Division

E. C. A.

November 19, 1948

My dear Dickinson:

It occurs to me that you might be interested in seeing the accompanying memorandum on transport bottlenecks in British Empire areas which has been prepared here.

As you will see, it does not pretend to be a profound study but it does seem to me to point to some interesting features and, perhaps, opportunities.

Yours sincerely,

A.S.G. Hear
Assistant Loan Director

Encl.

Mr. Edward T. Dickinson, Jr.
Director of Program Coordination Division
Economic Cooperation Administration
800 Connecticut Avenue
Washington, D.C.

ASGH/ts

x wk Col. Ser.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. Woolley

This is the
memo about which
I enclosed you
yesterday. ~~Mr.~~ Mr.

Garner wants it to be
sent to ICA, Mr.
Anderson.

Woh

October 19, 1948

MEMORANDUM

To: Mr. Leonard B. Rist

From: A. Wubnig and S. Lipkowitz

Subject: Transport Bottlenecks to Raw Material Exports in British Empire Areas.

Transport bottlenecks are hampering raw material exports from the following areas:

Nigeria	+ groundnuts
Northern Rhodesia	- copper
Southern Rhodesia	- asbestos, chrome
Union of South Africa	- coal, chrome, manganese
Australia	- lead and zinc
India	- manganese
Burma	- zinc, lead and silver

Both in Northern Rhodesia and Australia current mineral production is being hampered by inadequate coal receipts while huge stocks of already mined chrome, manganese, and zinc are piled up at mines for lack of adequate rail transport. Total stocks of zinc concentrates (158,000 tons zinc content) in Australia awaiting shipment are equal to 9 months production. In Burma, 50,000 tons zinc contained in concentrates are immobilized at the mine because of bridge destruction and inadequate rolling stock. Stocks of chrome ore above ground in Southern Rhodesia are reported to exceed 300,000 tons. In 1947, 85,000 tons were added to stocks of chrome ore in the Union of South Africa. Uncleared stocks of export groundnuts in Nigeria are expected to approximate 175,000 tons by November 1948, or 75 percent more than total exports in the 1947-48 season. South African coal exports in 1947 were reduced by some 830,000 tons because of lack of adequate rail transport, which is now becoming more acute.

Both the United Kingdom and the U.S.A. are already affected by this situation. The U.K.'s earnings and savings of foreign exchange are much smaller than they might be. The U.S.A. has been hindered in procuring strategic materials for stockpiling. Recently the U.S. Government has sent a transport mission to South Africa and India to try to expedite shipments for stockpile. A Select Committee of the House of Commons has inquired expressly into the locomotive and freight car shortages causing the great pile-up of groundnuts in Nigeria.

The transport bottlenecks retarding raw material exports from the British Empire trace mainly to a shortage of locomotives and freight cars. Shipments of

Rhodesian copper, chrome, and asbestos, e.g., are being cut at least \$3.5 million a month below the existing potential for want of 50 locomotives and 1600 freight cars. Because the Nigerian Railway lacks 42 locomotives and 160 freight cars, there is now piled up at the railheads about 25 percent of all Nigeria's output of export commodities in the past two seasons. The transport crisis on the Indian Railway is largely a problem of obtaining 390 additional locomotives, orders for which have just been placed in Canada, the U.S., the U.K., and France. To clear the growing acute congestion at all her ports, South Africa needs more coal and ore wagons, also some locomotives.

Locomotives and freight cars are in critical short supply in various British Dominions and Colonies, mainly because of a policy of concentrating orders for new equipment on U.K. locomotive and car builders as much as possible. Both the locomotive builders and the car builders in the U.K. have extremely limited capacity (perhaps 1,100 locomotives and 50,000 freight cars a year), compared with the home and export orders now on their books. They are currently producing for export at an annual rate of less than 300 locomotives and less than 5,000 freight cars per year. These exports have to cover demand from all the colonies, some dominions, and various non-British areas. They have to do so in circumstances where the home railways are absorbing nine-tenths of the freight car output (42,600 out of 46,000 a year) and three-fifths of the locomotive production (390 out of 660 main line engines a year).

There has been no expansion of British locomotive-making capacity, from the early 1930's to date, mainly because of a reluctance by the manufacturers to invest heavily in a boom-bust industry with a sad record of pre-war earning power. Even the existing facilities are not used full tilt, because of the urgent demand on the U.K.'s short supply of steel from a variety of other essential users. Freight car output is also held back by the shortage of steel.

Because of heavy overbooking with U.K. locomotive and car builders, the U.K.'s limited supplies of steel, and the interplay of conflicting priorities, inordinate delays have occurred between the placing of orders by British overseas railways and the actual delivery of equipment. After ordering locomotives and freight cars from the U.K. in early 1947, the Rhodesian Railway may have to wait until the end of 1950 before all the new equipment is delivered. The Nigerian Railway had to wait until mid-1948 for the receipt of equipment ordered in 1943-44; and may be forced to wait until 1949-50 for repeat orders placed in 1946-47.

The conclusions clearly follow that (a) U.K. authorities should make a thorough review of all the orders now booked with British locomotive and car builders, their practical manufacturing capacity, their expected timetable of deliveries, and the priority schedules now governing their backlog; and (b) in view of (i) the open manufacturing capacity now available in the U.S.A. and Canada, particularly for steam locomotives, and (ii) dollar savings and earnings which would result from moving the commodities now held back by inadequate transport, it may be wise for the U.K. to transfer to the U.S.A. and/or Canada for prompter delivery, some of the orders now on the books of British manufacturers.

It is suggested that this is a field where the Bank, by supplying dollar loans and assisting in obtaining the necessary export licenses, might be of great help.

*E.C.A.
J.H.*

OFFICE MEMORANDUM

TO: Mr. Garner

DATE: November 18, 1948

FROM: A.S.G. Hoar

SUBJECT: ECA Suggestion of a Bank Loan to the UK for the Purchase of Equipment for an Oil Refinery

I am puzzled by Anderson's reference, in his letter to you of November 4, to his hope of being able to see what the Bank "may be able to write to us shortly". As you will remember, you wrote to him on October 29 confirming that the Bank would be willing to consider an oil refinery loan to the UK, either as a direct loan to the UK Government or as a loan to the Anglo-American Oil Company guaranteed by the UK Government.

I have a faint recollection that your letter of October 29 was in Anderson's office for several days before it came to his attention and it may be that his letter of November 4 was written under a misapprehension. Nevertheless, before passing these papers to the file, I would like your confirmation that, so far as you are aware, there is nothing owing from us to the ECA in this matter.

*OK
H*

Ex.

ASGH/ts

ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

NOV 15 1948

Mr. D. Crena de Iongh
International Bank for
Reconstruction and Development
Washington 25, D. C.

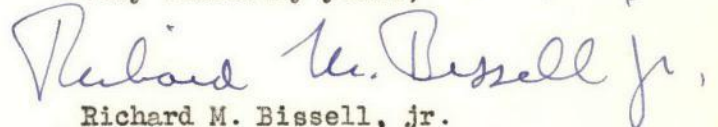
Dear Mr. de Iongh:

Following up your telephone call of November 10 and previous correspondence on the intra-European Payments Scheme, I am enclosing a draft explanation of this Scheme as prepared by our intra-European Payments Branch, Division of Fiscal and Trade Policy.

I hope you will be able to take up any questions concerning the plan with Mr. Corbett, Chief of the intra-European Payments Branch. I can only say at this juncture that your interpretation of the working of the plan is not an accurate one but the matter can best be clarified orally.

Mr. Corbett will be glad to discuss this matter with you.

Very sincerely yours,



Richard M. Bissell, jr.
Assistant Deputy Administrator

Rodan
OFFICE MEMORANDUM

TO: Mr. Leonard B. Rist

DATE: November 8, 1948

FROM: A. Basch

A.B.

SUBJECT: Fertilizer Supplies of the E.R.P. Countries

Reference is made to our memoranda of September 24, 1947, November 28, 1947, and January 22, 1948, referring to Dr. Baade's reports and Mr. I. Housz's notes on the fertilizer situation in Germany and Western Europe. In our comments it has been stated that Western European countries have not been dependent on the supply of nitrogen fertilizers from Germany, and, furthermore, that Germany's bottleneck in fertilizers lies in phosphoric acid which could be provided only by imports of sulphuric acid needed for the production of superphosphates.

The O.E.E.C. Report on the first annual program (1948-1949) contains the following comments on the situation in fertilizers:

1. Nitrogenous Fertilizers. Production of nitrogenous fertilizers is estimated to reach in 1948-1949 150 per cent of the 1935-1938 average (estimated production in 1948-1949, 1,356 thousand metric tons of pure nitrogen against 1,065 thousand tons in 1947). The increase in production (27 per cent) is greater than the 13 per cent increase in consumption.

2. Phosphate Fertilizers. The production of phosphate rock in French North Africa is sufficient in quantity to cover the needs of all the member countries. The productive capacity of member countries is greater than stated needs in spite of the increase in consumption.

The production of sulphur in member countries will be about 15 per cent greater than in 1947, but a deficit of about 750 thousand tons remains, and this difference can only be met by imports of sulphur from the United States.

Mr. Rist

-2-

3. Potash. The demand will remain higher than the possibilities for production in the member countries. The difference can only be met by imports from Spain and the Russian zone of Germany. This difference amounts to roughly 350 thousand metric tons of K₂O.

The report of O.E.E.C. thus confirms what was said in our memoranda quoted above.

cc Mr. Crena de Iongh

November 8, 1948

Dear Danny:

In accordance with our recent telephone conversation, I am addressing this letter to you in order to establish arrangements for our cooperation in connection with the exchange of documents dealing with problems of mutual interest.

It is not at all necessary, nor desirable, in my opinion, for the International Bank to secure copies of all OREC materials supplied to ECA. In particular, detailed specific import programs are not necessary as a general rule. In certain cases, of course, when the Bank has under consideration a loan to the country involved for a specific project which fits into its general import program, it may be agreed by both ECA and the Bank that examination of the detailed import program would serve the mutual interests of both organizations. Arrangements of this sort should be fixed on an ad hoc basis.

Of the OREC documents which you receive from Paris and reproduce yourself, we should be very grateful if arrangements could be made so that we would automatically receive those dealing with balances of payments, production data, and over-all import, export and consumption levels (but not detailed import programs). Particularly useful also would be explanatory memoranda submitted by the countries in connection with annual, long-term, or even quarterly programs, on the matters of their basic economic policies and objectives.

Assurance can be given to ECA officially on behalf of the Bank that documents made available to us in accordance with these arrangements will be used only on the staff and management level, and not furnished to the member governments of the Bank. The Bank will, of course, be glad to defray reproduction charges where necessary. Documents may be forwarded to R. F. Skillings, Chief of Research Files, I.B.R.D., 1816 H Street, N. W., Washington 25, D. C. In such cases where materials supplementary to the sort described above are to be requested on an ad hoc basis, all such requests from the Bank will be cleared through me and I shall contact you or anyone else, including the Program Secretary, whom you may designate.

Your helpful cooperation in this exchange of documents is most sincerely appreciated by the International Bank, and is of considerable value in facilitating the accomplishment of our mutual purposes. I am personally very grateful to you.

Sincerest regards,

Martin H. Rosen

cc: Mr. O. Harold Folk, Loan Department
Archives
Mr. H. G. A. Woolley, Information Division

Mr. Daniel Hopkinson
Division of Program Coordination
Economic Cooperation Administration
Washington, D. C.

MHRosen:ang

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Sincerely yours,

Walter D. Brown

cc: Mr. G. Harold Felt, Loan Department
Archives
Mr. H. G. A. Woolley, Information Division

Mr. Daniel Hopkins
Division of Program Coordination
Economic Cooperation Administration
Washington, D. C.

Walter D. Brown



e.c.a.
CABLE ADDRESS
ADECA

ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

NOV 4 - 1948

~~Mr. Robert Garner~~
Vice President, World Bank
1818 - H Street, N. W.
Washington, D. C.

Dear Bob:

I thought you might like to have the attached,
apropos to our talks. We are hoping to see what you
may be able to write to us shortly.

Sincerely yours,

S. W. Anderson
Director
Industry Division

Attachments:

1. Memorandum of conversations
with Morgan Stanley & Co. ✓
2. Memorandum to Mr. Howard Bruce. ✓

*See
memo 18 Nov 48*

Mr. Bruce - Room 508

November 2, 1948

S. W. Anderson

Memorandum of Conversations with Morgan Stanley and Company

I am passing on to you a memorandum of our conversations with partners of Morgan Stanley and Company. This memorandum has had the benefit of their revisions and represents, they say, a correct statement of the facts. I propose to keep it in our files.

Alex Henderson and I had a talk last week with the World Bank. Their position may briefly be stated as one of reluctance to consider a loan to the British Government as such, the proceeds of which would, however routed, be spent outside of the UK. They are giving further consideration, however, to the thought that a \$100 million loan to the UK, as such, could be made, the proceeds to be used, in the first instance, for the purchase of equipment for the Fawley Refinery, one-half portion of which could then be resold to Standard of New Jersey to take care of the latter's willingness to provide \$50 million for the project. We are awaiting further word from Mr. Garner in this connection.

SWA:cnk

MEMORANDUM OF CONVERSATION REGARDING FINANCING
OF CAPITAL NEEDS OF THE BRITISH OIL COMPANIES

At our invitation, Messrs. Harold Stanley, Cortelyou Simonsen, and John Young of Morgan Stanley and Company called on us today. Mr. Howard Bruce, Mr. R. M. Bissell, Jr., Mr. Walter Levy and S. W. Anderson participated in the discussions.

We asked our visitors to tell us, to the extent they properly could about the proposed \$250 million loan for a subsidiary of the Royal Dutch-Shell Transport Group. Mr. Stanley stated that the transaction had not been completed but it was expected to be shortly. The funds are being lent by ten institutional investors to Shell Caribbean Petroleum Company, which had been incorporated in New Jersey in 1911 as Caribbean Petroleum Company. Shell Caribbean in addition to its own proven oil reserves acquired from associated companies of the Royal Dutch-Shell Transport Group additional oil properties and other assets and securities sufficient to support the loan. Amongst these assets are 8,815,404 shares (65.44% of all shares presently outstanding) of Shell Union Oil Company common stock (an American company). They advised us that the Shell Company had not been able to supply a forecast of the uses to which the monies would be put over the next few years in any final sense. It was expected, however, that approximately \$15 million would be used to purchase one-half of the stock of a Canadian subsidiary owned by a British subsidiary of the Group, thus supplying that quantity of dollars to British interests. However, such purchase may be made through issuance of stock of Shell Caribbean in which event no monies would be paid. The loan contract specifies that all of the funds must be utilized in the Western Hemisphere. It is expected that they will be used in substantial measure to finance the Company's own expansion in Venezuela or to acquire capital stock of certain companies operating in the Western Hemisphere in

order to provide such companies with the needed capital for further expansion in their exploration, production, transportation and refining operations. They may also be used directly or through the medium of wholly or partially owned subsidiaries for the purpose of purchasing additional concessions from the Venezuelan Government, from other Western Hemisphere Governments or from other owners of concessions. The loan contract also permits the use of the money in making advances to such wholly or partially owned subsidiaries or to associated companies. The loan contract does not prohibit the purchase of physical property or assets from other Royal Dutch-Shell Transport associated companies or subsidiaries operating in the Western Hemisphere, provided such purchases are justified on business grounds. Through these methods, therefore, at least in theory, a portion of the proceeds of the loan could find its way in the form of dollars into the treasuries of Royal Dutch-Shell Transport Group subsidiary companies (other than Shell Caribbean) having capital needs in the Caribbean areas. Since the Shell Caribbean Company is ultimately owned in the same proportion by Royal Dutch (60%) and its sister British company Shell Transport (40%) as is the case with all of the presently operating subsidiaries in the Caribbean area, such transactions would not necessarily be too difficult to carry out if it were considered to be desirable and in the interests of Shell Caribbean as a business matter. (Certain associated companies of the Royal Dutch-Shell Transport Group operating in Venezuela are not wholly owned and have minority stock interests outstanding.)

There may, however, be many complications and difficulties in carrying out such transactions for the express purpose of financing Caribbean expenditure of British domiciled subsidiaries of Royal Dutch-Shell Transport Group, not the least of which is the tax problem.

We also discussed with our visitors the situation with respect to Anglo-Iranian Oil Company. Their knowledge of the company was confined to the published information also available to us. They had given considerable thought, prior to their visit with us, to the question of financing Anglo-Iranian in dollars. Since Anglo-Iranian to their knowledge has no American subsidiaries whose securities would be legal investment for U.S. life insurance companies they saw no way to accomplish such financing.

They were aware of the existence of British Tankers Company, Limited, a wholly owned subsidiary of Anglo-Iranian Oil Company. They believed that it would be impossible to arrange private financing of British Tankers Company, Limited, with the insurance companies in New York unless the obligations of the company could be guaranteed by the World Bank. In this latter case, they thought it entirely possible that the American insurance companies would be interested in the bonds of British Tankers Company, Limited, at rates to be fixed by the International Bank in line with its loaning policies. They pointed out, however, that if the World Bank were to make such a guarantee, the funds so provided could not be used, under the rules of the World Bank, in lieu of sterling for the building of tankers in the United Kingdom. They also explored, on a very general basis, the admittedly difficult problems under the regulations of the Bank of funnelling any financing on the part of British Tankers Company into the capital needs of Anglo-Iranian Oil Company in Iran unless the Iranian Government guaranteed the loan.

We stated that we believed, as a consequence of this conference, that a further talk with the World Bank on this latter subject would be worthwhile. I propose to set this up promptly.

S.W. Anderson
Director
Industry Division



CABLE ADDRESS
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ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

file

November 3, 1948



Mr. Robert L. Garner
Vice President, International Bank
for Reconstruction and Development
Washington 25, D. C.

Dear Bob:

Thank you very much for your letter of
October 29th which conveys the views of the Bank on
the subject conversation. I appreciate having this.

Sincerely yours,

S. W. Anderson
Director
Industry Division

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U.S. DEPARTMENT OF COMMERCE
WASHINGTON, D.C.



ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

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November 3, 1948

Mr. Robert L. Garner
Vice President, International Bank
for Reconstruction and Development
Washington 25, D. C.

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October 29th which conveys the views of the Bank on
the subject conversation. I appreciate having this.

Sincerely yours,

S. W. Anderson
Director
Industry Division

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RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FILE COPY

6018

October 29, 1948

Mr. Samuel W. Anderson
Director, Industry Division
Economic Corporation Administration
1800 Connecticut Avenue, N.W.
Washington, D.C.

Dear Sam:


Reference is made to our meeting on October 26, 1948, at which you and Mr. Henderson informally discussed with Messrs. McLain, Hear, and myself a number of problems of concern to our respective organizations. At your request I am writing to summarize the Bank's position on certain of the questions which were raised at that meeting.

During the course of the discussion you sought our views on the possibility of the Bank extending a loan to the Anglo-Iranian Oil Company for equipment needed for maintenance and development purposes in Iran. You also inquired about the possibility of the Bank extending a loan to the Caribbean subsidiaries of the British-owned Shell Oil Company to be used for similar purposes in Venezuela. We explained that the Articles of Agreement of the Bank provide that when a member in whose territories a project is located is not itself the borrower, a loan for that project must be guaranteed by that member government. We pointed out that, on the basis of the facts which you were able to give us, it seemed to us doubtful whether the Bank would be warranted in making the loans referred to without the guarantees of the Iranian and Venezuelan Governments, respectively.

In the course of further conversation you asked whether the Bank would be willing to consider a loan of \$100 million to finance the major part of the foreign exchange costs of an oil refinery which the Anglo-American Oil Company is erecting in England at Fawley, Hants. We replied that the Bank would be willing to consider such a loan either as a direct loan to the British Government or a loan to Anglo-American Oil Company guaranteed by the British Government.

We further pointed out, however, that the question whether the Bank can do anything at all by way of loans in E.C.A. countries will depend upon whether the Bank can obtain satisfactory assurances from E.C.A. that the obligations of the respective countries under E.C.A. loans will not impair their ability to meet their obligations under the Bank's loans.

Sincerely,


R. L. Garner
Vice President


Orvis A. Schmidt/amh

Carson
Es.



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ADECA

ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

File

October 28, 1948

Mr. Robert Garner
Vice President, World Bank
1818 H Street, N. W.
Washington, D. C.

Dear Bob:

In accordance with my promise, I am sending you herewith two copies of the First Annual Program as presented to ECA by OEEC. I think you and your staff will find this an interesting document.

- Research Files

Sincerely yours,

S. W. Anderson
Director
Industry Division

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

OCT 29 8 46 AM 1948

INDUSTRIAL DIVISION
DIRECTOR
S. M. WILSON



Sincerely yours,

With this note an interesting document
presented to ECIA by OREC. I think you and your staff
will be very interested in the data which follows in
the enclosed letter of OREC. I am sending

Best regards

Washington, D. C.
1919 H Street, N. W.
Alice President, World Bank
Mr. Harold Galtner

October 29, 1948



WASHINGTON 25, D. C.
ECONOMIC COOPERATION ADMINISTRATION



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E.C.A.

Mr. McLain

October 27, 1948

A.S.G. Hoar

Subordination of ECA Loans

I have no comments on your draft letter dated October 26.

ASGH/ts



Record Removal Notice

File Title United States Government Agencies - Foreign Aid - Export Rehabilitation Project [ERP] and Economic Cooperation Administration [ECA] - Correspondence		Barcode No. 1071210		
Document Date Oct. 27, 1948	Document Type Memorandum			
Correspondents / Participants From: CAM To: Mr. Garner				
Subject / Title Proposed letter from the Administrator for Economic Cooperation and Export Import-Bank of Washington to Borrower under ECA Loan				
Exception(s) Attorney-Client Privilege				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"> <tr> <td>Withdrawn by Ann May</td> <td>Date April 08, 2022</td> </tr> </table>	Withdrawn by Ann May	Date April 08, 2022
Withdrawn by Ann May	Date April 08, 2022			

Mr. C. A. McLain, General Counsel

October 27, 1948

D. Crena de Iongh, Treasurer

Draft of letter from the Administrator for Economic
Cooperation and Export-Import Bank of Washington

With reference to your memorandum sent to Mr. Garner on
October 26, copy of which you sent to me, I want to state that I
have no observations to make on the subject and that I think that
the matter might be taken up with ECA as it is.

DECLASSIFIED

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CONFIDENTIAL

WBG ARCHIVES

SUBORDINATION OF ECA LOANS

SUMMARY OF ARGUMENTS AT MEETING OF STAFF LOAN COMMITTEE, OCTOBER 26, 1948.

1. The Committee discussed the subordination of ECA loans to those of the International Bank, and considered a draft, to be submitted to the ECA, of a letter which would be sent from the Export-Import Bank to the Borrower.
2. A paragraph in the draft letter, stating that if, because of adverse economic conditions, the borrower were to find itself unable to make payments of both ECA and International Bank loans, the Export-Import Bank would arrange for postponement of payments on the former, was criticized on the following grounds:
 - (a) Such a provision would not be acceptable to ECA, since it would be regarded as affording an automatic postponement to any country which could show a little difficulty with its balance of payments.
 - (b) Such a provision would put the borrower in too advantageous a bargaining position, which might prejudice the position of ECA before Congress.
3. The inclusion of such a provision in the draft letter was defended, on the grounds, that:
 - (a) Any provision making it more difficult for the borrower to obtain permission to postpone payments would in effect be useless to the International Bank. If postponement were to be left to the whim of ECA rather than determined by objective considerations, the Bank would not have the protection it needs.
 - (b) A provision such as that suggested would give the borrower the right in appropriate circumstances to postpone payment and to assert that it was not in default; if the approval of ECA were to be required for postponement, ECA alone would have the right to say when there was or was not a default.
 - (c) Many of the loans of ECA would be made without regard to the prospects

E.C.A.
S.H. Gha
file

of repayment. The Bank could not lend to the same borrowers unless assured of the precedence of its own loans.

(d) The Bank might be able to persuade ECA to accept a provision such as this, in the light of the importance to the success of the ERP of the Bank's making loans to Western Europe.

4. Other points made included the following:

(a) The terms of this letter would be less important as a matter of creating legal rights than they would be from the standpoint of their effect on public opinion.

(b) Some objective, impartial, means of determining whether postponement is necessary would be most desirable from the standpoints of all parties. In the absence of any such tribunal, an arrangement whereby the matter would be negotiated by all parties rather than decided unilaterally, would be most acceptable.

5. It was agreed that the letter should be redrafted in the light of the discussion.



Record Removal Notice

File Title United States Government Agencies - Foreign Aid - Export Rehabilitation Project [ERP] and Economic Cooperation Administration [ECA] - Correspondence		Barcode No. 1071210		
Document Date Oct. 26, 1948	Document Type Memorandum			
Correspondents / Participants From: CA McLain To: Mr. Garner				
Subject / Title Proposed letter from the Administrator for Economic Cooperation and Export Import-Bank of Washington to Borrower under ECA Loan				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Ann May</td><td>Date April 08, 2022</td></tr></table>	Withdrawn by Ann May	Date April 08, 2022
Withdrawn by Ann May	Date April 08, 2022			

Mr. McLain

October 25, 1948

A.S.G. Hoar

Subordination of ECA Loans

I am sorry that, in the last minute rush of Eliff's departure, he seems to have overlooked the necessity of letting you know his opinion of your draft letter of October 11.

He and I had discussed this draft and had no comments to offer other than ^{that} it seemed to us entirely satisfactory.

ASGH/ts

OFFICE MEMORANDUM

TO: Dr. E. Wayne Rembert

DATE: October 21, 1948

FROM: A. D. Spottswood *AS*

SUBJECT: Applications for grants and loans by the Yung Li Chemical Company, Shanghai, China

Dr. Gould sent to Mr. Rist in letter dated October 14, 1948, copies of application of the Yung Li Chemical Company for loan under the China Aid Act of 1948 in the amount of \$2,171,600, and a copy of its application for a grant (replacement funds) for \$349,025. In addition, there was an application for grant for replacements of damaged and missing machinery of the company's soda ash plant at Tangku, China, in the amount of \$353,050.

The application for a loan is in effect a request for ECA funds to provide funds for machinery and equipment originally intended to be purchased with a loan of \$1,566,700 from Export-Import Bank, plus some additional amount for equipment not included in Export-Import Bank loan. In the application, it is stated that if the Export-Import Bank credit is made immediately available, then only the balance of approximately \$600,000 (\$2,171,600 minus \$1,566,700) will be needed. Export-Import Bank loan is held up waiting for the Chinese Government, through the Bank of China, to guarantee extension of the Export-Import Bank loan from December 31, 1948 to December 31, 1950. The original loan agreement was signed on May 1, 1945, but the government guarantee did not reach the Export-Import Bank until April 1947. Since that date, it became apparent that the American manufacturers needed additional time beyond expiration of the agreement (December 31, 1948) in which to deliver the equipment ordered, the company then initiated a request for extension, but to date the Chinese Government apparently has not acted on this request. No funds have been drawn under the Export-Import Bank loan.

The ECA loan would be used to complete rehabilitation of the plant started with UNRRA funds and expand the capacity of the plant to 170,000 tons of ammonium sulphate annually. The original rated capacity of the plant was 50,000 tons of sulphate ammonium annually. Its present annual rate of production is 36,500 tons. (The information obtained from the American Consulate Report *from* Shanghai, dated June 1, 1948, indicated the Yung Li Plant at Nanking would be increased from 50,000 to 90,000 tons annually.)

The request for a grant (replacement fund) would restore the plant to its original capacity of 50,000 tons and also restore the nitric acid plant at the same location.

The company has an old ammonium plant with a capacity of 40 tons of ammonia per day and a new ammonium plant which was purchased with UNRRA funds in 1947 with a capacity of 30 tons of ammonia per day. The estimated capacity of the ammonia required for the production of 170,000 tons ammonium sulphate annually is 120 tons per day, plus sulphuric plant with capacity of 360 tons per day.

By the utilization of the plant capacity now available, together with about \$1,300,000 of UNRRA supplies on hand, it is estimated that if the loan

is granted, the proposed plant expansion could be completed within one year. It was pointed out that this schedule would be possible because negotiations for the procurement of major machinery items such as compressors, pumps, generators, etc., have been under negotiations with manufacturers in the United States for sometime under the Export-Import Bank loan agreement.

The company states that it controls coal mines adequate for the production of the necessary coking coal and that the supply of pyrites from mines operated by the National Resources Commission are adequate for future expansion. One of the company's coal mines, however, and some of its coke ovens are located in the Shangtung province which recently was reported to have fallen into the hands of the Chinese Communists.

Mr. de Sercey referred these reports to me on 20 October, 1948 but stated that they were listed for circulation to Dr. Welk and Mr. Gilmartin. I returned them to Mr. de Sercey.

E.C.A.
OCT 25 REC'D

UNITED STATES OF AMERICA
ECONOMIC COOPERATION ADMINISTRATION
SPECIAL MISSION TO THE NETHERLANDS
Benoordenhoutscheweg 6
The Hague

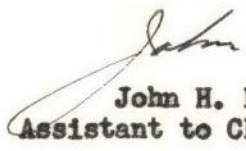
October 21, 1948

Dear Jack:

Thank you very much for your letter of October 7 and the good news that we may expect Dr. Gould here early in November.

Alan Valentine joins me in thanking you for making these arrangements. We look forward with much interest to what Dr. Gould may have to tell us.

Sincerely,



John H. Humpstone
Assistant to Chief of Mission

Mr. John J. McCloy,
International Bank for
Reconstruction and Development,
Washington 6, D. C.

RECONSTR. AND DEVELT.
INTERNATIONAL BANK FOR
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*No Reply necessary.
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OCT 25 1948
E. D. A.

UNITED STATES OF AMERICA
ECONOMIC COOPERATION ADMINISTRATION
SPECIAL MISSION TO THE NETHERLANDS
Benoordenhoutwachweg 6
The Hague

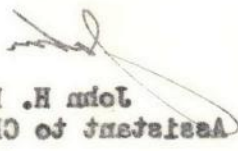
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Dear Jack:

Thank you very much for your letter of October 7 and the good news that we may expect Dr. Gould here early in November.

Alan Valentine joins me in thanking you for making these arrangements. We look forward with much interest to what Dr. Gould may have to tell us.

Sincerely,



John H. Humphreys
Assistant to Chief of Mission

OCT 25 9 17 AM 1948

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. John J. McCloy,
International Bank for
Reconstruction and Development,
Washington 25, D. C.

Handwritten notes at bottom left

FILE COPY

GENERAL FILE'S COPY

October 20, 1948

Mr. W. T. Glidden
Program Secretary
Economic Cooperation Administration
800 Connecticut Avenue, NW, Room 908
Washington, D.C.

Dear Mr. Glidden:

With reference to our conversation yesterday, we would be very much obliged if you could have duplicated for us the following tables of the revised programs presented to OEEC:

All countries:	No. of pages
Table II	18
Table III	36
Table VF	16
Table B	17
Table C	14

In addition I should be very grateful if we could obtain further material on Turkey, i.e., all of Table I (384), the PE Table (one page). We do not require for the moment any of the covering memoranda to the unrevised programs which you so kindly allowed me to segregate.

When these tables are ready, would you kindly call me on Executive 6360, extension 2309, and I will send a messenger for them. The bill, which I understand is to be at the rate of 14¢ per page, should be sent to the Treasurer, International Bank for Reconstruction & Development.

Sincerely yours,

RFS
Robert F. Skillings
Head, Research Files

RFS:rms

ECA

October 20, 1948

Mr. Richard M. Bissell
Assistant Deputy Administrator
Economic Cooperation Administration
Malatico Building
800 Connecticut Avenue, N.W.
Washington, D.C.

Dear Mr. Bissell:

The currency clearance arrangement described by Mr. Hoffman last Thursday is of great interest to me, since it deals with a type of transaction which comes to me in the administration of the loans of the International Bank. The arrangement was described, according to the papers, as a means of increasing the acceptability for the currencies of OEEC participants by offering the ECA as an assured market for those currencies, with the expectation that currencies bought by ECA will be added to the respective counterpart funds. As far as I can see from the press reports, it would seem that the net result might be the same as if the ECA were to make payment in dollars for ERP goods originating in non-dollar countries -- a subject I discussed with you last July. At that time you gave me a copy of a Draft Resolution on the Implementation of a Scheme Intended to Facilitate Trade and Payments between Participating Countries (Paris, 22nd July, 1948), which set forth as one of its objectives "... (b) to provide supplementary resources... [for] payments whilst avoiding so far as possible settlements in gold or dollars." The new arrangement, as I would take it from the press reports, would appear to operate in a conflicting direction.

Mr. Hoffman's example was

"Suppose Greece needs steel and France can supply it but cannot accept drachmas. Under the arrangement, Greece would buy the steel from France and pay in drachmas. We would purchase the drachmas from France and pay them into the drachma counterpart fund that Greece is required to maintain, like every other participating nation, to forward its recovery."

The Bank has objected, as I probably explained to you, to making reimbursement in dollars, under its loans, for transactions between two European countries. The objection was based on the discovery that the selling company, or supplier, was able to exact from his government a more favorable rate of exchange than the rate established by agreement with the International Monetary Fund, or in some cases the rate stated in a bilateral payments agreement, simply by virtue of having a private claim on dollars.

HAS

Mr. Bissell

October 20, 1948

The same difficulty might also exist in the new arrangement even though a third currency is involved. It is quite probable that, in Mr. Heffmen's example, neither the French supplier nor the French Government would be thinking in terms of drachmas when the rate for the transaction was agreed, but both would be figuring from the dollar amount which ECA would eventually exchange for the drachmas, and they would come to agreement accordingly. It is for this reason that I would like to learn whether the newspaper reports are, perhaps, incorrect, or that I have misunderstood them.

If you will have time, I would like to arrange an occasion when we could discuss the matter.

Yours sincerely,

D. Crena de Iongh

DC/met

cc Mr. Riley
Mr. Aldewereld

October 18, 1948

TO: Mr. L. B. Rist

FROM: M. N. Rosen

SUBJECT: European Multilateral Payments Settlement

The possibility of the Multilateral Compensation Convention being opened to occasional members, or to permanent members who were not participating countries of OEEC, was raised at one of the early meetings at which the draft of the Convention was discussed. At that time, I indicated my personal objection and stated that I felt that such an operation would be contrary to the basic concepts of ECA policy, inasmuch as compensation was being effected through the redistribution of American aid. It would, therefore, be contrary to the interest and desires of Congress and of the legislation for American aid to be used to effect compensation and thus improve the economic status of countries which were not participating countries and not members of OEEC. There is a fundamental legislative objection against the use of ECA money for the profit of non-participating countries. This view was subsequently supported by the General Counsel and can be taken to be the official ECA position at the present time.

Attachment: Basch memo on this subject

MMRosen:amg

OFFICE MEMORANDUM

TO: Mr. ~~Iliff~~

DATE: October 15, 1948

FROM: A.S.G. Hoar

SUBJECT: Subordination of ECA Loans

*Memo to McLain
25/x.*
✓

I assume that McLain's draft letter of October 11 is to replace both the draft documents which he submitted on October 6.

The draft of October 11 seems to me a great improvement, and I have no quarrel with it at all. I observe that the puzzling reference to "adequate provision" has been omitted.

ASGH/ts



Mr. Hoar

October 15, 1948

E. A. Bayne

Attached ECA Loan Forms

I think you may be interested in looking at the forms for ECA loans. The recent \$300,000,000 agreement with the U. K., as Mr. Lawrence's letter indicates, is to be executed by this wording. The simplicity is delightful.

Attachment

ECA

OFFICE MEMORANDUM

File

TO: Mr. D. Crena de Iongh

DATE: October 15, 1948

FROM: H. R. Slusser

SUBJECT: ECA proposal to pay in dollars for goods supplied by non-dollar countries.

Mr. Hoffman described last night a plan put forth by the OEEC, and acceptable to ECA, which amounts virtually to payment in dollars for goods supplied to ERP countries by suppliers in non-dollar countries. I believe this parallels a recent decision of the Bank in connection with the Luxembourg loan and a purchase of locomotives in France.

Mr. Hoffman's example was, "Suppose Greece needs steel and France can supply it but cannot accept drachmas. Under the arrangement, Greece would buy the steel from France and pay in drachmas. We would purchase the drachmas from France and pay them into the drachma counterpart fund that Greece is required to maintain, like every other participating nation, to forward its recovery."

Evidently, the supplier country will eventually receive dollars for its goods, while the recipient country will meet the cost from its ERP funds.

NY Times, October 15, 1948, p. 5.

AS

14 October 1958

meet the cost from the ERM funds.
 receive dollars for the goods, while the recipient country will
 eventually, the imported country will eventually
 collect."
 However, the early stage of development is to transfer the re-
 sults into the domestic market and that there is required to
 pay in dollars. We would increase the domestic flow of funds and pay
 back the settlement. There would pay the price from dollars and
 needs price and there can supply if not cannot receive dollars.
 Mr. Hoffman's example was "through there
 from and a increase of resources in dollars."
 recent decision of the Bank in connection with the international
 payments in non-dollar countries. I believe the benefits a
 to payment in dollars for goods imported to ERM countries by
 other by the OMEC, and necessary to ECU, which would eventually
 Mr. Hoffman described last night a plan for

SUBJECT: *C. J.* *July 3* *R-R* *2363*
 FROM: *E. F. Gilman*
 TO: *Mr. D. G. Gilman*

DATE: October 14, 1958

OFFICE MEMORANDUM

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 10.19.48

TO-		Name	Room No.
1	Mr. Smith	Mr. Smith	1123
2	Mr. Hoff	Mr. Hoff	404
3	Mr. Welch	Mr. Welch	320
4	Mr. Gilmartin	Mr. Gilmartin	320
FOR-		E.W. Lambert	425
		Gilmartin	320
	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

FP - L. Ries

cca/48

UNITED NATIONS



NATIONS UNIES

ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST
106 WHANGPOO ROAD
SHANGHAI, CHINA

TELEPHONE: 40070
CABLES: ECAFE SHANGHAI

October 14, 1948

Mr. Leonard B. Rist, Director
Economic Department
International Bank for Reconstruction and Development
Washington, D. C.

Dear Mr. Rist:

I am enclosing herewith four items which may be of interest, namely:

1. Application for Loan from ECA Under China Aid Act of 1948, by Yungli Chemical Ind. Ltd.

2. Application of Replacement Funds under the same act ~~from the~~ from the same company for replacement of machinery of their amonium sulfate plant.

3. Application of Replacement Funds under same act from same company for replacement of machinery of their soda ash plant.

(The Yungli Chemical is privately owned and one of the better managed companies in China.)

4. A brief note on the Federal Welfare Plan - Java. It is in Dutch, but Mrs. Coates should be able to readily translate it.

The Industrial Development Working Party is making some progress and as it appears today we should complete our assignment by the end of the month, when I expect to start back for Washington.

With the best of wishes and kind regards,

Sincerely yours,

J. S. Gould

RECEIVED
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL BANK FOR

OCT 18 4 41 PM 1948

*Demuth - Rist
Wolk - Lemartin*

UNITED NATIONS



UNITED NATIONS

ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST
100 WANGPOO ROAD
SHANGHAI, CHINA

TELEPHONE: 40070
CABLES: ECATE SHANGHAI

October 14, 1948

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Economic Department
International Bank for Reconstruction and Development
Washington, D. C.

Dear Mr. Rist:

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1. Application for loan from ECA Under China Aid Act of 1948, by Yungli Chemical Ind. Ltd.

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3. Application of Replacement Funds under same act from same company for replacement of machinery of their soda ash plant. (The Yungli Chemical is privately owned and one of the better managed companies in China.)

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With the best of wishes and kind regards,

Sincerely yours,

J. S. Gould
J. S. Gould

OCT 18 4 41 PM 1948

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Handwritten note:
Bureau of Economic Affairs
Washington

October 14, 1948

TO: Mr. L. B. Rist

FROM: M. M. Rosen

The only difference between the two drafts dated October 11 and October 12 involving anything of substance is a change which provides that postponement shall alternatively be as arranged by the EX-IM Bank with the borrower (in the later drafts), or shall be more or less automatically at the option of the borrower as soon as it finds itself in difficult economic straits.

I am not clear about whether these letters are meant to supersede the arrangements given in the supplemental loan agreement (draft dated October 6), or are meant as a replacement for that supplemental agreement. In my opinion, the supplemental agreement would be much more acceptable to ECA than either of the draft letters would be independently. If I were still at ECA, however, I would not accept any of the proposals, since they amount, more or less, to automatic postponement of ECA loans whenever the policy of the borrowing country is such as to create balance of payments difficulties. There have already been enough examples to make clear that such difficulties can be created almost at will whenever a country finds an advantage in doing so.

Att: Oct. 6,11,12 memos

MMRosen:amg

OFFICE MEMORANDUM

TO: Mr. ~~Iliff~~

DATE: October 13, 1948

FROM: A.S.G. Hoar

SUBJECT: Subordination of ECA Loans

*filed
date order*

Reference: Legal Department Memo of October 6 attached.

Do you know why McLain sets out to safeguard the provision of all amounts due to the IBRD for twelve months ahead of each payment due to the Eximbank?

What does he have in mind as making "adequate provision" for such payments? The phrase seems to me to have little meaning unless it means setting the requisite sums aside in some special account. If it does mean that, it means, of course, the securing of tighter conditions of loan service for the IBRD than we have ever yet achieved.

Attachment

GH.

ASGH/ts

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 10-13

TO-	Name	Room No.
1	Mr Riley <i>WMP</i>	
2	Mr Alderson <i>WMP</i>	
3	M.C.T.	
4		

FOR-

Action	Initialing
Approval	Preparing Reply
Comment	Previous Papers
Filing	Noting and Returning
Full Report	Recommendation
Information	Signature

REMARKS

g wmp

FROM-

9 w/p/B
✓
Messrs. McCloy, Garner, Crena de Iongh,
Rist, Demuth

ECA
October 12, 1948

Chester A. McLain

Hereto attached is a revised alternative draft dated October 12, 1948 of the proposed letter on ECA loans, a previous draft of which dated October 11, 1948 was sent you early today. In the attached draft the proposed letter has been changed to provide for its being signed by the Administrator for Economic Cooperation and also to modify paragraph 3. This draft does not supersede the October 11th draft but is intended as an alternative suggestion.

CAM

C. A. M.

CAMcLain:AS

Attachment

cc: Messrs. Sommers
Oppenheimer

INTERNATIONAL BANK
RECONSTRUCTION AND DEVELOPMENT

Mr. Hoar:

Mrs. Colquitt informs me that she has no record of ever receiving or filing Mr. McLain's draft, dated Oct. 12.

A handwritten signature in cursive script, appearing to be the initials 'MB' or similar, located in the lower right quadrant of the page.

CONFIDENTIAL

As sent to Messrs. McCloy, Garner, Duff, Crenna
de Jugh, Rust and Demuth 10/12/48
October 12, 1948

DECLASSIFIED

APR 01 2022

WBG ARCHIVES

Draft of Letter from Export-Import Bank
of Washington to Borrower Under ECA Loan.

Ev. 26/x

Referring to the agreement dated # between you and Export-Import Bank of Washington (hereinafter sometimes referred to as the Credit Agreement), whereby said Bank established in your favor a credit of not exceeding \$ # to assist you in financing the acquisition of certain commodities and services:

1. You have informed us that you have applied to International Bank for Reconstruction and Development (hereinafter sometimes referred to as the International Bank) for a loan of \$ # for the purpose of assisting in the financing of certain projects for the reconstruction and development of your economic resources and that the International Bank is prepared to make such a loan, but only if it receives satisfactory assurance that your obligations under the Credit Agreement and any other similar agreement which you may enter into for credits under the Economic Cooperation Act of 1948 and any promissory notes which you shall have executed and delivered for amounts advanced to you under any such agreements will not impair your ability to make payments of the principal of, and the interest, commission and other charges on, such loan from the International Bank when and as they

fall due.

2. We find that the making of such loan by the International Bank would be consistent with and in furtherance of the purposes of the Economic Cooperation Act of 1948. Accordingly, at your request, and in order to enable you to obtain such loan, we are pleased to confirm to you and the International Bank our agreement that, if the International Bank shall make such loan to you, your obligation to make payments of the principal of, and the interest, commission and other charges on, such loan shall at all times have precedence over your obligation to make payments of the interest on, and principal of, any promissory notes which you shall have executed and delivered for amounts advanced to you under any such credits.

3. We further confirm that, in accordance with paragraph 4 of the Credit Agreement, if at any time because of adverse economic conditions you shall find yourself unable to make payments of interest on, or principal of, any such promissory notes which you shall have so executed and delivered and also to make payments of the principal of, and interest, commission and other charges on, such loan from the International Bank, when and as the respective payments fall due, Export-Import Bank of Washington will arrange with you for the postponement of such payments of interest on, and principal

of, such promissory notes for such period or periods as shall be reasonably necessary in order to make fully effective the assurance set forth in the foregoing paragraph 2.

We are sending a copy of this letter to the International Bank.

Very truly yours,

Administrator for Economic Cooperation
EXPORT-IMPORT BANK OF WASHINGTON

by

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. Hoar.

This is General Amos's
later effort.

WJ
—
14/11.

CONFIDENTIAL DRAFT

October 11, 1948

from M. Laine -

DECLASSIFIED

Draft of Letter from Export-Import
Bank of Washington to Borrower
Under ECA Loan.

APR 26 2022

WBG ARCHIVES

Referring to the agreement dated # between you and us (hereinafter sometimes referred to as the Credit Agreement), whereby we established in your favor a credit of not exceeding \$ # to assist you in financing the acquisition of certain commodities and services:

1. You have informed us that you have applied to International Bank for Reconstruction and Development (hereinafter sometimes referred to as the International Bank) for a loan of \$ # for the purpose of assisting in the financing of certain projects for the reconstruction and development of your economic resources and that the International Bank is prepared to make such a loan, but only if it receives satisfactory assurance that your obligations under the Credit Agreement and any other similar agreement which you may enter into with us for credits under the Economic Cooperation Act of 1948 and any promissory notes which shall have been executed and delivered by you to us for amounts advanced to you under any such agreements will not impair your ability to make payments of the principal of, and the interest, commission and other charges on, such loan from the International Bank

when and as they fall due.

2. We consider that the making of such loan by the International Bank would be consistent with and in furtherance of the purposes of the Economic Cooperation Act of 1948. Accordingly, at your request, and in order to enable you to obtain such loan, we are pleased to confirm to you and the International Bank our agreement that, if the International Bank shall make such loan to you, your obligation to make payments of the principal of, and the interest, commission and other charges on, such loan shall at all times have precedence over your obligation to make payments of the interest on, and principal of, any promissory notes which you shall have executed and delivered to us for amounts advanced to you under any such credits.

3. We further confirm that, in accordance with paragraph 4 of the Credit Agreement, if at any time because of adverse economic conditions you shall find yourself unable to make payments of interest on, or principal of, any such promissory notes which you shall have executed and delivered to us and also to make payments of the principal of, and interest, commission and other charges on, such loan from the International Bank, when and as the respective payments fall due, you may postpone such payments of interest on, and principal of, such promissory notes for such period or periods as shall be reasonably necessary in order to

make fully effective the assurance set forth in the foregoing paragraph 2.

We are sending a copy of this letter to the International Bank.

Very truly yours,
EXPORT-IMPORT BANK OF WASHINGTON
by

B.C.A.

OFFICE MEMORANDUM

TO: Mr. A. S. G. Hoar

FROM: Richard H. Demuth

SUBJECT:

DATE: October 8, 1948

Mr. Repton*For reference in connection with writing**to W.H.**Ev. S. X.*

Mr. Garner has asked me to send you the following extract from a memorandum by Walter Hill relating to a conversation which Hill and Forbes had with Mr. Perkins, Chief of the Industry Section of ECA-Paris.

"3. Besides his interest in the broader aspects of IBRD's European policies, Mr. Perkins asked if we could let him have the Bank's views on these specific points:

(a) He had heard that the Bank had had discussions with Italy about the possible financing of a number of projects, including a steel mill. If the Bank would like to finance the steel mill, ECA would stand aside. Mr. Perkins was informed that there had been investigations and discussions, but that, according to our knowledge, no decisions had been reached. It would be helpful to the Paris Office to have two copies of the report on Italy (including Mr. Rembert's technical report), as well as the Bank's latest views. In the interests of cooperation, permission might be given to the Paris Office to show the report to ECA to enable them to assess the Italian position.

RHD

R. H. D.

RHD:bd

ECA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: OCTOBER 7, 1948

To: WALTER HILL
HOTEL LINCOLN
24 RUE BAYARD
PARIS

CLASS OF SERVICE DESIRED			
FULL RATE	<input checked="" type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>

TEXT: BELIEVE IT ADVISABLE THAT THERE SHOULD BE REFERENCE TO ROLE OF BANK IN
REPORT ON 1948 - 1949 PROGRAM TO THE EFFECT AS YOU INDICATE IN YOUR CABLE
LEAVE EXACT WORDING TO YOU

GARNER

INTERNATIONAL BANK
OCT 7 12 09 PM 1948
FOR RECONSTRUCTION
AND DEVELOPMENT

OFFICIAL

PERSONAL

AUTHORIZED BY:

NAME Mr. Garner

DEPT. Vice President

AUTHENTICATED FOR DISPATCH BY:

[Handwritten signature]
OCT 15 1948
[Red handwritten initials]

CLEARED BY:

#4

DUPLICATE

DATE TIME

UNRECORDED FOR DISPATCH BY INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

DEPT: ATOR 54012000

NAME: MR. CHIEF

OCT 7 12 03 PM 1948

UNRECORDED BY:

RECORDED BY:

PERSONAL

OFFICIAL

NUMBER

PLEASE EXCHANGE NUMBER TO AOB

PERSON OR TIME - TIME PROCEED TO THE OFFICE OF THE DIRECTOR IN THE CITY

TEXT: MESSAGE IS DATED BY THE DIRECTOR OF THE OFFICE OF THE DIRECTOR IN THE CITY

TYPE:

BY AIR

BY AIR

TO: AIRTEL UNIT

DATE: OCTOBER 3, 1948

DVA TELETYPE <input type="checkbox"/>	CODE WAVE <input type="checkbox"/>
TEXT WAVE <input checked="" type="checkbox"/>	AIRTEL TELETYPE <input type="checkbox"/>
CLASS OF SERVICE DESIRED	

INTERNATIONAL BANK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

500

FILE COPY

ECR

October 7, 1948

Mr. John H. Humpstone
Assistant to Chief of Mission
Economic Cooperation Administration
Benoordenhouts cheweg 6,
The Hague, Netherlands

Dear John:

I have your letter of September 24th concerning Dr. Gould. We will, of course, be glad to arrange to have Dr. Gould come back from Shanghai via Holland and to stay with you for a few days in The Hague to give you any information that he acquired concerning the Netherlands East Indies during his recent visit there.

I understand that Dr. Gould will be needed in Shanghai until the end of October, so that his visit to you will not take place before the early part of November. We are asking Dr. Gould to advise you directly as to the precise time of his arrival in Holland.

Sincerely yours,

(signed) John J. McCloy
John J. McCloy

RHP
RHD:bd

CC: Mr. Rist w/copy Humpstone's ltr.
Mr. Gould " " " "

CF 21 Oct

OFFICE MEMORANDUM

TO: Dr. P. N. Rosenstein-Rodan

DATE: October 6, 1948

FROM: Paul D. Dickens ✓ ~~100~~

SUBJECT:

With reference to the letter of September 20 from Edgar Jones, especially the last paragraph questioning the waiver data relating to the interest and amortization payments of the United Kingdom, I find that Mr. Jones is correct in saying that there are no waivers until 1951. The error was due to misinterpretation of the terms of the loan agreement between the United Kingdom and Canada.

c.c.: Mr. Rist



Record Removal Notice

File Title United States Government Agencies - Foreign Aid - Export Rehabilitation Project [ERP] and Economic Cooperation Administration [ECA] - Correspondence		Barcode No. 1071210		
Document Date Oct. 6, 1948	Document Type Memorandum			
Correspondents / Participants From: CA McLain To: Crena de Iongh				
Subject / Title Subordination of E.C.A. Loans				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Ann May</td><td>Date April 08, 2022</td></tr></table>	Withdrawn by Ann May	Date April 08, 2022
Withdrawn by Ann May	Date April 08, 2022			

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

Date of Wire 6 OCTOBER 1948

To MR. GARNER
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.

From PARIS

TEXT:

FIRST DRAFT REPORT ON 1948-49 PROGRAM PREPARED BY OEEC FOR ECA MENTIONS BANK ONLY ONCE AS ONE OF SEVERAL SOURCES OF FINANCE THAT COVERED EUROPEAN DOLLAR DEFICIT IN 1947. WE BELIEVE THIS LIMITED REFERENCE IS SATISFACTORY TO YOU BUT IF YOU WISH US TO SUGGEST THAT SOMETHING BE ADDED TO EFFECT THAT BANK MIGHT BE AVAILABLE FOR SUPPLEMENTARY SELECTIVE PROJECTS DURING 1948-49 PLEASE CABLE TEXT TO REACH US FRIDAY MORNING WHEN REPORT GOES TO PRESS.

HILL

ROUTING:

ACTION copy to MR. GARNER

INFORMATION copy to

Decoded by

Ack. Oct. 7, '48

ORIGINAL

OCT 7 2 00 PM 1948
RECORDS AND TRAFFIC
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ОРИГИНАЛ

Decoded by

ИНФОРМАЦИЯ copy to

ACTION copy to MR. GARNER

КОПИЯ:

OCT 7 9 35 AM 1948

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

НИИТ

TO PRESS

TEXT TO REACH US EARLY MORNING WHEN REPORTS CONCERN
SPECIAL PROJECTS DURING 1948-49 PLEASE ADVISE
THAT BANK MIGHT BE AVAILABLE FOR SUPPLEMENTARY
US TO SUGGEST THAT SOMETHING BE ADDED TO EFFECT
REFERENCE IS SATISFACTORY TO YOU BUT IF YOU WISH
DOUBT DEFICIT IN 1948. WE BELIEVE THIS LIMITED
OF SEVERAL SOURCES OF FINANCE THAT COVERED EUROPEAN
BY ONE FOR EACH MENTIONING BANK ONLY ONCE AS ONE
FIRST DEPT. REPORT ON 1948-49 PROGRAM PREPARED

TEXT:

FROM

FROM

WASHINGTON, D.C.

TO

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
MR. GARNER

Date of issue

9 OCTOBER 1948

INCOMING MESSAGE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FILE COPY

Recount + C.C.A.

September 27, 1948

Mr. Rifat Tirana
Adviser on Western Europe
* Export-Import Bank of Washington
Washington 25, D. C.

Dear Rif:

Many thanks for your letter of September 24th and the loan documents you enclosed. They still don't contain the provision for modification that the Bank wants to see in them, but I believe that this is being discussed directly between our Legal Department and the ECA General Counsel. ✓

I hope to see you again soon.

Sincerely yours,

Richard H. Demuth
Assistant to the Vice-President

RHD:bd



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

E.C.A.
OCT 4 REC'D

ECONOMIC COOPERATION ADMINISTRATION,
Benoordenhoutscheweg 6,
The Hague, Netherlands,
September 24, 1948.

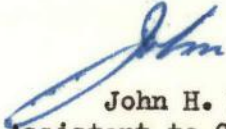
Dear Jack:

I have had a letter today from Dr. Gould stating that he will be coming through Holland the latter part of October on his way home from the East. We would like very much to have him stay with us for several days to bring us up to date on the aspects of that area that he has been studying particularly.

If there is any difficulty concerning expenses for this side trip from Brussels to The Hague and back, we will absorb these ourselves in guilders.

We hope that our delaying him here for several days will be agreeable to you, and actually I am writing for your approval. Will you please let me hear from you at your earliest convenience as I would like to make arrangements for Dr. Gould here.

Sincerely yours,


John H. Humpstone
Assistant to Chief of Mission
Economic Cooperation Administration

Mr. John McCloy, President,
International Bank for
Reconstruction and Development,
Washington 25, D. C.

ack Oct 7 '48

RECONSTR. AND DEVEL
INTERNATIONAL BANK FOR
DEVELOPMENT

1948

Washington 25, D. C.
Economic Cooperation and Development
International Bank for
Mr. John McCloy, President

Handwritten notes:
M
M
✓
78

Economic Cooperation Administration
Assistant to Chief of Mission
John H. Humphreys

Handwritten signature:
John H. Humphreys

Dear Sir:

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1948

Dear Sir: I am writing you to thank you for
your letter of September 25, 1948. I am
pleased to hear that you are interested in
the work of the Economic Cooperation
Administration.

I am sure that you will find the work of
the Administration very interesting and
important.

I have been very busy lately and
am sorry that I cannot write you more
often. I will be coming to Washington
in the next few days and will be
pleased to see you.

Very truly,
John H. Humphreys

September 25, 1948
John H. Humphreys
Assistant to Chief of Mission
ECONOMIC COOPERATION ADMINISTRATION



UNITED STATES OF AMERICA
OF THE
THE FOREIGN SERVICE

OCT 7 1948

Handwritten initials:
M.C.K.

EXPORT-IMPORT BANK OF WASHINGTON

WASHINGTON 25, D. C.

CABLE ADDRESS
"EXIMBANK"

September 24, 1948.

Mr. Richard Demuth
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D. C.

Dear Dick:

I enjoyed lunching with you again, and as I promised yesterday, I am attaching a copy of the three loan documents now under discussion between ECA and various borrowers.

These drafts may be called the official ones, though there are still three problems under discussion:

1. The members of the borrowers union are all objecting to the mention of local currency in Article IV of the credit agreement;
2. Similarly, they are all objecting to the requirement with respect to documentation for loans which is to be stringent as in the case of grants;
3. Borrowers other than the UK want revolving funds established similar to those in use at this Bank and at your Bank.

Yours sincerely,



Rifat Tirana
Adviser on Western Europe

Attachment

ack 27 Sept

EXPORT-IMPORT BANK OF WASHINGTON

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS
"EXIMBANK"

SEP 25 1 44 PM 1948

September 24, 1948

Mr. Richard Lemuth
International Bank for Reconstruction
and Development
1815 K Street, N.W.
Washington, D. C.

Dear Mr. Lemuth:

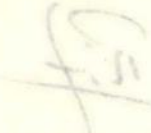
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established similar to those in use at this Bank and at your
Bank.

Yours sincerely,



R. J. Adams
Advisor on Western Europe

Attachment

Adm. Sec.

Draft
9/23/48

LETTER OF NOTIFICATION

First part of letter will set forth total allocation and segregation, and also specify period covered. The following paragraphs should be included:

"In addition to the foregoing allotment, you are hereby notified that expenditures made by _____ (Country) _____ during the second and third calendar quarters of 1948 for commodities or services within approved programs for those quarters and for which it has not been reimbursed by the Economic Cooperation Administration will be reimbursed to it upon a loan basis in an amount not to exceed \$ _____ for the second and third calendar quarters of 1948, upon the terms and conditions hereinafter set forth with respect to loans for the fourth calendar quarter of 1948.

The foregoing allocation (hereinafter called the "line of credit") is made upon the following terms and conditions:

- (a) Before any procurement authorization shall be issued hereinunder (country) will be required to execute to Export-Import Bank of Washington a Loan Agreement and promissory note in the form and content attached hereto as Exhibits A and B respectively. The initial principal amount of such promissory note shall be for the total of the maximum amounts specified above as available under loans for the second, third and fourth calendar quarters of 1948. As soon as practicable after the end of the fourth calendar quarter, the principal amount of said note will be adjusted to the amount of actual reimbursement for procurement with loan funds during the second and third calendar quarters of 1948, and to _____ % of the total allotment for all purposes actually expended or committed for the fourth calendar quarter of 1948.
- (b) The line of credit will be available to (country) initially from the Economic Cooperation Administration upon compliance with the procedure set forth in ECA Regulation No. 1, as from time to time amended, and upon the documentation prescribed therein, as in the case of grants.

- (c) (Country) will be required to furnish the Administrator with such signatures, endorsements, or authorizations as are necessary or desirable in administering the disbursement of this line of credit.
- (d) This line of credit shall expire at the end of the second calendar quarter of 1949 except as to amounts theretofore firmly committed. Amounts shall be deemed to be firmly committed for the purpose hereof if (country) has entered into a binding agreement for commodities or services to be supplied after the end of such quarter, or if country is actively negotiating a contract for the acquisition of commodities requiring the preparation of complex plans and specifications which from their nature cannot be reduced to contract prior to the expiration of the quarter. In either case, in order to preserve its rights under the line of credit, (country) shall certify the pertinent facts to the Administrator (including in the latter case an estimate of the ultimate contract price) prior to the end of such quarter. Upon receipt of such certification, the Administrator will take appropriate steps (a) to have the necessary funds therefor set aside by the Export-Import Bank of Washington; (b) to provide for the disbursement thereof, and (c) to provide for the adjustment of the Promissory Note referred to in paragraph (a) hereof in the event of abandonment of any such contract or negotiations.
- (f) The Administrator assumes no obligation or responsibility for the issuance by any agency or department of the Government of the United States of any priority, allocation, permit or license which may be required under existing or future laws of the United States or any existing or future regulation of any agency or department thereof to manufacture, produce, purchase, sell or export any item which may be financed hereunder.

Please indicate your acceptance of the foregoing on the enclosed copy of this letter."

Draft
9/23/48

PROMISSORY NOTE

Washington, D. C.

_____, 1948

U. S. \$ _____

1. FOR VALUE RECEIVED _____ hereby promises to pay to Export-Import Bank of Washington, an Agency of the United States of America, its successors or assigns, the principal sum of _____ Dollars (U. S. \$ _____), or so much thereof as may be advanced against this note, in instalments as herein set forth, and to pay interest at the rate of two and one-half percent ($2\frac{1}{2}\%$) per annum on the unpaid principal balance hereof from time to time outstanding from June 30, 1952; such interest to be payable semi-annually thereafter beginning on December 31, 1952.

2. The principal of and interest on this promissory note are payable at the office of Export-Import Bank of Washington, Washington, D. C., in lawful money of the United States of America, unless the parties hereto mutually agree otherwise.

3. The principal of this promissory note shall be paid in semi-annual instalments, beginning June 30, 1956, in the amounts and at the times set forth below:

Date

Amount

Date

Amount

If less than the face amount of this note shall be advanced hereunder, proportionate adjustments will be made in the amounts of the respective instalments of principal, after final advance hereunder.

4. _____ (Country) _____ may prepay on any interest date without penalty or premium all or any part of the principal of this promissory note, any such prepayment to be applied to the above instalments of principal in the inverse order of their maturity.

5. Upon default in the prompt and full payment of any instalment of principal or any interest on this promissory note the entire unpaid principal hereof and interest thereon to the date of payment shall immediately become due and be payable at the option and upon demand of the holder hereof. The non-exercise by the holder hereof of such right, with respect to any particular default shall not constitute a waiver of such right with respect to such default or any other default.

6. This note is issued pursuant to the provisions of that certain Loan Agreement between the parties hereto dated _____, 1948 and is subject to all of the terms and conditions thereof.

(Country)

AGREEMENT

This Agreement made and entered into as of the _____ day of _____, 1948 by and between the Government of _____ (hereinafter referred to as "_____") and Export-Import Bank of Washington (hereinafter referred to as "Eximbank"), an Agency of the United States of America,

W I T N E S S E T H :

WHEREAS, the Administrator for Economic Cooperation (hereinafter referred to as "Administrator") has advised Eximbank that in accordance with the provisions of the Economic Cooperation Act of 1948 a determination has been made to extend assistance to _____ on credit terms in the amount not exceeding _____ Dollars (\$ _____) for financing the acquisition of such commodities and services as are approved by the Administrator; and

WHEREAS, the Administrator has allocated funds to Eximbank for the purpose and in the amount aforesaid by the issuance of a promissory note to the Secretary of the Treasury of the United States, and has specified, after consultation with the National Advisory Council on International Monetary and Financial Problems, the terms upon which Eximbank shall make and administer the credit;

NOW, THEREFORE, It is agreed that:

1. Eximbank hereby establishes in favor of _____ a line of credit of not exceeding _____ Dollars (\$ _____) to assist _____ in financing the acquisition of such commodities and services as shall be from time to time approved by the Administrator;

2. Simultaneously with the execution of this agreement _____ has executed in favor of and delivered to Eximbank a promissory note in the principal amount of _____ Dollars (\$ _____), or so much thereof as may be advanced under the credit hereby established; a copy of which promissory note is attached hereto as Exhibit A;

3. Eximbank will make disbursements for the account of _____ under the credit in such amounts and at such times as shall be specified by the Administrator;

4. If at any time when an instalment of interest or principal becomes, or is about to become, due on the aforesaid promissory note, Eximbank and (_____) determine that because of adverse economic conditions it would be in their common interests to postpone, or provide for the postponement of, such instalment or to provide that such instalment of any part thereof shall be made and received in local currency of _____ at a rate of exchange to be agreed upon, or to modify the aforesaid promissory note in any other respect, they may by mutual agreement in writing provide for any such postponement for payment in local currency, or other modification hereof. Any agreement for payment in local currency may specify the purposes for which such currency may be used.

5. Prior to and as a condition precedent to the first disbursement under the credit, Eximbank shall be furnished:

- (a) Evidence of authority of the person who has executed this agreement and the promissory note and otherwise acts as the representative of _____ in connection with the credit;
- (b) An opinion of the Minister of Justice of _____, or other Legal Counsel, satisfactory to Eximbank demonstrating to the satisfaction of Eximbank that _____ has taken all action necessary under its constitutional laws to authorize the contracting of the credit and that the promissory note given to evidence the credit constitutes the valid and binding obligation of _____ in accordance with its terms.

IN WITNESS WHEREOF, etc.

Ex

OFFICE MEMORANDUM

Please J.B.

TO: Mr. Hoar
FROM: G. Stewart Mason *P.S.M.*
SUBJECT: ECA Loans

DATE: September 21, 1948

#1

Before leaving for my vacation I prepared a letter for Mr. Iliff's signature asking the Dutch to inform the Bank of the terms of any ECA loans. This letter was not sent as Mr. Iliff told me he thought a standardized letter should be sent to all those countries to which the Bank had made loans. I understand from Mr. Penton that this standardized letter has never been sent. The question has arisen once again, this time with Denmark as the Danish Information Office has reported that \$17,500,000 has been allotted the Danes in the April quarter as a loan. It may be that the terms of loans to European countries have not yet been agreed upon since I believe that Iceland is the only country which has signed an accord with the United States. It might, however, be of advantage to ask the Netherlands, Denmark and France to keep us informed, in the meantime, of the progress of their negotiations in this matter.

M. Mason

I also attach a copy of letter dated September 18, 1948 which I received from Dr. Soutendijk explaining the recent fall in the monetary gold holdings of the De Nederlandsche Bank N.V.

Copy filed - Gen. Loans.

1 Mr Penton

Attachment

GSM/efd

You will observe that Mason's memo covers broader territory than Holland. I am therefore routing the papers back through you.

I have discussed # with WAB1. and we think it would be preferable, on the whole, to handle this matter on a personal basis with Soutendijk, Ahlfeldt, Le Gallais and (ouch!) Valensi, by word of mouth. Thus # merges with #.

2 Mr Mason

| 388

Please see above.

Thanks for letting me see Soutendijk's letter. The explanation he gives is no doubt correct but I think we are entitled to definite statements rather than his deductions. However I would not labor this particular point further; nor, for matters of these dimensions would I insist on a written word.

GS 28/ix

C O P Y

NETHERLANDS EMBASSY
Washington 9, D.C.

September 18, 1948

Mr. G. S. Mason
Assistant Loan Officer
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D. C.

Dear Mr. Mason:

With reference to your yesterday's telephone conversation with Mr. Woudhuysen in respect of the monetary gold holdings of the De Nederlandsche Bank N.V., I wish to inform you that in my opinion the recent decrease from fl. 481.703.757.21 to fl. 454.838.777.62 is due to the pledging of gold to the Federal Reserve Bank of New York, in connection with the latter's advance of \$10 million to the De Nederlandsche Bank N.V. The Bank was informed of this transaction with my letter FA/2072 of September 2, 1948.

I feel supported in my opinion by the fact that the only appreciable change in this item prior to the one referred to above, took place during the week of March 30, 1948 - April 5, 1948 and this decrease of approximately fl. 27.6 million was explained in a statement attached to the weekly balance of the De Nederlandsche Bank N.V. of April 5, 1948, by the pledging of gold in the amount of \$10 million to the Federal Reserve Bank of New York.

Moreover, the Financial Daily Newspaper of September 2, 1948 (a Dutch financial newspaper published in Amsterdam) gives the same explanation.

The statement attached to the weekly balance sheet of the De Nederlandsche Bank N.V. of April 5, 1948 proves that any pledge of gold is reflected in the balance sheet by a corresponding decrease in the gold holdings. Unless the advance is utilized in its entirety during the week covered by the balance sheet, one usually finds an increase in the item "balances with correspondents in foreign countries".

Very truly yours,

L. R. W. Soutendijk
Financial Counselor

UNITED KINGDOM TREASURY DELEGATION

BOX 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

REFERENCE

TELEPHONE EXECUTIVE 2020

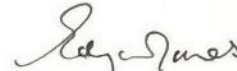
September 20th, 1948.

Dear Rosenstein-Rodan,

As I told you at lunch, I find it very difficult to accept the figures for the U.K. quoted in your statement "Dollar Debt Burden of E.C.A. Countries 1949-1960", especially those in Table IID. Both the export and import figures and the net invisibles are way above any of the estimates recently produced. Conclusions drawn from this table can be very misleading, especially in trying to relate United Kingdom dollar receipts to interest and amortization payments. Thus, I find it difficult to accept the 10% and below curves in Chart E. I should think that they would border on the 20% line and not the 10%. Your answer to this criticism was that the figures were based on the "Country Tables". But surely in trying to relate the debt obligations of E.R.P. countries during the critical fifties we should take figures of more recent vintage than the Country or Brown Book figures.

M. Dickson || Incidentally, I fail to understand the figures of 46 and 53 against the years 1949 and 1950 respectively in Column 7 of Table IID which purport to show interest and amortization payments waived on behalf of the U.K. I know of no waiver clause that operates prior to 1951.

Yours sincerely,



Edgar Jones

Mr. Paul N. Rosenstein-Rodan,
International Bank for Reconstruction & Development,
1818 H Street, N.W.,
Washington, D.C.

E.C.A.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1. *N. Hoar.*

OFFICE MEMORANDUM

TO: 2. John Penton

DATE: 16 September 1948

FROM: W.A.B. Iliff

letter 31 Aug. 48.

SUBJECT:

I notice that Mr. Dickinson did not send us a copy of any letter to Belgium. I thought there might, perhaps, be some significance in the omission of Belgium, and I spoke to Mr. Dickinson about it today. He tells me that the omission of a copy of the Belgian letter from the dossier was an oversight and he is sending me a copy today.

W. A. B. Iliff

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

ECA
Paris
Office

DECLASSIFIED

APR 01 2022

WBG ARCHIVES

Hotel Lincoln
24 rue Bayard
Paris, France

September 14, 1948

Mr. R.L. Garner, Vice-President
International Bank for Reconstruction and Development
1818 H Street N.W.
Washington 6, D.C.

Research file

Dear Mr. Garner:

Enclosed are (a) a brief report on the division of ECA funds and (b) a set of the key documents relating to it. The documents should be treated as confidential. Some hurdles remain to be overcome, but it is hoped that the programmes for 1948-49, revised in the light of the agreement about the division of funds, will be submitted by OEEC to ECA at the end of September, that is a fortnight behind schedule.

Most of the facts were obtained from Mr. Figgures who, incidentally, asked me to apologize on his behalf to Mr. McCloy for not having reported to him in recent weeks when he had a hectic time.

Yours sincerely,

Walter Hill

Walter Hill

WH/o

DECLASSIFIED

APR 01 2022

WBG ARCHIVES

Confidential

September 14, 1948

WH(2)

DIVISION OF ECA ASSISTANCE FOR 1948-1949

1. Retrospect of Negotiations

(a) Early in June the countries participating in the Marshall Plan undertook to prepare their initial programmes for 1948-49 by July 15th and to submit them in final form to ECA by September 15th. The understanding then was that the final decision about the allocation of funds would be made by ECA. There was some criticism, on the American side, about the questionnaires that had been prepared by OEEC for the participating countries as a guide to the formulation of programmes and, on June 5th, Colonel Bonesteel informed the participating countries of a change in American plans, that is of the decision of the U.S. Government that the participating countries themselves should agree on the allocation of ECA funds for the first year. After prolonged discussions, lasting into the first week of July, the participating countries undertook to carry out this task.

(b) On July 16th, the Council of OEEC instructed a Committee of Four to recommend a provisional division between the participating countries of ECA funds likely to be available during the year ending June 30th, 1949. The "Four Wise Men", as they were called, included the chairmen of the four principal standing OEEC Committees, J. Guindey (Balance of Payments), E.P. Roll (Programmes), D. Spiereburg (Exchange), P. Stoppani, acting for Anstiaux (Intra-European Payments). The Committee's report is attached (Ref. C(48)65). At a meeting on August 12th, the Council considered the report of the Committee of Four, but failed to reach unanimous agreement, largely because of the exceptions taken to its recommendations by Turkey, Greece and the Bizons. It then became clear that no solution of the problem of allocating ECA funds could be achieved without calculating the amounts of the contributions to be made in local currencies under the Intra-European Payments Scheme by countries with a credit balance with Marshall Europe and the allocation of these contributions to countries with a debit balance in the commercial transactions with Marshall Europe. This involved the preparation of estimates for each country of its credit or debit balance during 1948-49 with each of the other participating countries. Without such estimates, no country could know the extent of the total assistance available to it. The principles of the Intra-European Payment Scheme are set out in the attached report (Ref. C(48)99).

(c) On August 15th the Committee decided, therefore, (a) to invite participating countries to enter into bilateral negotiations for the purpose of establishing their debit and credit balances for 1948-49 with each of the other participating countries, and (b) to set up a Committee of five charged with the task of supervising these bilateral discussions and "to recommend to the Council not later than August 26th what contributions should be made by the creditor countries (to debtor countries) and what would be the drawing rights of debtor countries (upon creditor countries). These bilateral discussions involved 13 countries and 78 separate bilateral negotiations. The Committee of Five reported on August 31st. (See attached report; Ref. C(48)141). The slight delay was due to the almost inevitable tendency for debtor countries to overstate their net debit balance and, to a lesser extent, for creditor countries to understate their net credit balances for 1948-49.

APR 01 2022

WBG ARCHIVES

(d) The recommendations of the Committee of Five again failed to receive the unanimous agreement of the Council at its meeting on September 2nd. Mr. Wilkinson, on behalf of General Clay, refused to agree on behalf of the Bizone, but Italy, Denmark, Holland and Turkey were also dissatisfied with their treatment. Nevertheless, it was obvious that, with a collective will to find a solution of the outstanding problems, a solution could be found. The Council, consequently, adjourned to give the dissenting parties a chance to reach agreement by private negotiations. Mr. Harriman paid flying visits to Brussels and London in an attempt to overcome some of the obstacles to agreement and the OEEC Secretariat contributed valuable suggestions about the solution of specific problems.

(e) The Council was reconvened on September 10th and, on September 11th, agreed to the division of ECA grants and to the net debit and credit balances of participating countries in relation to each other set out in the attached report. (Ref. C(48)158). Turkey and Greece, however, reserved their positions and Denmark was not particularly enthusiastic about the agreement. The latest version of the implementation of the Intra-European Payments Scheme also found a substantial measure of support, though a number of points still remain to be settled. (Ref. C(48)155).

2. Work Still to Be Done

(a) Report to ECA on 1948-49 Programme. All but two countries (Turkey and Greece) undertook to revise their programmes for 1948-49 in the light of the report adopted by the Council (Ref. C(48)158) by September 18th. Next, OEEC will screen the revised programmes to assure, among other things, that imports of equipment are not reduced, that the prices prescribed by ECA are adhered to in calculating the cost of imports, and that the combined import programmes for specific commodities do not exceed the quantities estimated to be available. (The latest information available suggests that, with a few exceptions, the lack of foreign exchange rather than physical supplies, is now the limiting factor; the exceptions include petroleum, oil cake, coarse grain and certain qualities of steel). On the basis of this information, OEEC will then prepare a report and, after approval by the Council, will submit it to ECA. It is hoped that this report will be in the hands of ECA by September 30th. (The original date fixed for the submission of the report was September 15th).

(b) Payments Scheme. A number of outstanding problems still remain to be settled. One is whether to permit transferability of drawing rights; another is how to bring Switzerland and Portugal into the scheme. After these points are settled the scheme will have to be embodied in a Convention signed by the Participating Countries. The Bank for International Settlements, which has for several months been operating limited clearing operations for several OEEC countries, has been asked to act as the Agent in operating the Scheme.

(c) Local Currency. The precise method whereby local currency is to be injected into the Payments Scheme remains to be worked out.

(d) Commercial Policy. Agreement also remains to be reached on the principles of Commercial Policy. (See Ref. C(48)144).

(All these issues will have to be settled before the final report can be approved by the Council and submitted to ECA.)

3. Provisional Conclusions

(a) Considering the technical complications involved in coordinating ECA assistance with the Intra-European Payments Scheme, the fact that agreement has been reached at all is a substantial achievement, in spite of Greek and Turkish reservations. Too much fault should not be found because of the delays and of the fact that tempers were tending to run high on occasion, and real credit is due to the OEEC Secretariat for its patience and persistence.

(b) The Secretariat of the OEEC is steadily extending its influence. During the difficult discussions in recent weeks, the Secretariat demonstrated its ability to think out and gain the approval of solutions to some of the many difficult technical problems. The lack of any formal powers is proving to be a help rather than a hindrance to the establishment of the Secretariat's authority.

(c) The agreement on the division of ECA assistance in itself does not, of course, carry cooperation in Western Europe as far as one might hope for. In particular, the Intra-European Payments Scheme has a number of disappointing features. Its main defect is that, as framed, no means could be devised to provide incentives to countries, to reduce this deficit through increased exports, smaller imports or both. Moreover, some of the basic conditions of collective progress in Marshall Europe, such as the need for rational financial policies, have not yet reached the stage of collective discussion by OEEC, much less agreement on methods to implement such policies.

lulf.

RECEIVED
MAY 10 1952
OEEC

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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and budgets.
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(a) The agreement on the duration of ECW assistance in itself does not

offer than a hindrance to the empowerment of the Secretary's authority.
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(c) Considering the technical complications involved in coordinating ECW

3. Provisional Conclusions

FILE COPY

ECR

September 8, 1948

Mr. E. T. Dickinson, Jr.
Director
Program Coordination Division
Economic Cooperation Administration
Washington 25, D. C.

Dear Mr. Dickinson:

I wish to thank you for your letter of August 31 enclosing copies of the letters which you have written to various foreign missions with respect to loan negotiations.

We will keep you advised of further developments at our end.

Sincerely,

R. L. Garner

Reconst. E.C.A.

ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.

AUG 31 1948

Mr. Robert D. Garner,
Vice-President,
International Bank for
Reconstruction & Development,
1818 H Street, N.W.
Washington 25, D.C.

Dear Mr. Garner:

I enclose herewith copies of ^{*} letters which we have written to the various foreign missions with respect to loan negotiations they have been carrying on with your institution. This is in line with the suggestions made at our very pleasant luncheon.

We will continue to encourage the various participating countries to negotiate with you on the various loans which may be considered eligible for International Bank financing and would welcome any further suggestions you might have along this line.

Sincerely,



- * Letter to U.K. Govt. filed U.K. Colonial Development
 - Letter to French Govt. " France - Colonial Develop.
 - Letter to Italian Govt. " Italy - Relations w. E.C.A.
 - Letter to Turkish Govt. " Turkey
 - Letter to Norwegian. " " Norway
 - Letter to Austrian Govt. " Austria
 - Letter to Netherlands " Netherlands- Relations w. E C.A.
- T. Dickinson, Jr.
Director
Program Coordination Division

ack
8 Sept 48

August 26, 1948

Recs
Mr. Wayne C. Taylor
Director of Operations
Economic Cooperation Administration
800 Connecticut Avenue
Washington, D. C.

Dear Wayne:

In accordance with our previous discussion I am sending for your information two copies of a memorandum prepared by our Legal Department covering the provisions incorporated in our loan and guarantee agreements.

Sincerely yours,

R. L. Garner

Record ECA

CROSS REFERENCE SHEET

DOCUMENT: MEMORANDUM

DATED: AUGUST 31, 1948

TO: FILES

FROM: MR. BAYNE

SUMMARY:

Meeting at ECA was called to establish a working relationship between the IBRD and the appropriate officials of ECA concerned with colonial development, particularly in Africa.

FILED UNDER: COLONIAL TERRITORIES

CROSS REFERENCE: RECONSTRUCTION AND ECA

Records ECA

MEMORANDUM FOR MR. GARNER

Re: Proposed Provision to be Included in ECA
Loan Agreements Regarding Postponement
of Payment of Service

August 25, 1948

Legal

I spoke to Mr. Bayley regarding Mr. McLain's letter of August 18, 1948 on the above subject.

Mr. Bayley stated that Mr. Henderson went to Europe last week to discuss the loan agreements and will not be back until this Friday; that before Mr. McLain's letter was received everyone in ECA became interested in the question of repayments in materials and the local currency alternative dropped into the background. He further stated that until Mr. Henderson's return he will not be informed as to developments.

I requested that he call me the first of next week in order that we might discuss the subject further after he had had a chance to see Mr. Henderson. Mr. Bayley then told me he was leaving ECA this Friday, but that his successor Mr. Douglas King already was up to date regarding our interest. He assured me Mr. King will call me the first of next week.

cc: Mr. Demuth

AFLuxford/GW

8/25/48

ROUTING SLIPDate August 23/48

TO-		Name	Room No.
1		Mr. H.W.Riley	1201
2			
3			
4			

FOR-			
	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

Please see SLC/A/21

FROM- C.H.Davies

STAFF LOAN COMMITTEE

APR 01 2022

WBG ARCHIVES

(This document is for the use of the President, Vice President and members of the Staff Loan Committee only. Its contents should not be communicated to other persons except in the course of duty.)

EUROPE

Coordination of Bank's Activities with Activities of E.C.A.

1. An application has been received by the Bank from the Italian Government for a loan to finance the foreign exchange costs of certain projects in the field of shipping, steel manufacture, irrigation, and electric power. This application presents an opportunity, arising out of a concrete case, for the Bank to move towards a clarification of the procedure to be adopted to coordinate the activities of the Bank in E.R.P. countries with the activities of E.C.A.
2. I think that when considering a loan application from any of the E.R.P. countries, the Bank should be in a position to know and to take into account the views of (a) E.C.A. and (b) O.E.E.C. with respect to any program which the Bank is being asked to finance, in particular with regard to the extent which E.C.A. and O.E.E.C. consider that the program is consistent with the general approach of the E.R.P. not only to the reconstruction of the economy of the applicant country, but to the reconstruction of the economy of Western Europe as a whole.
3. I accordingly suggest that we should adopt as a standard procedure, an approach to E.C.A. and to O.E.E.C. along the lines of the letters attached as Appendices I and II, in every case where we have an application from a Marshall country for a loan.

(signed) W. A. B. Iliff
Loan Director

20 August 1948

PROPOSED LETTER TO E.C.A. FROM THE LOAN DEPARTMENT
ON ITALIAN LOAN APPLICATION

The Bank has received a loan application from the Italian Government covering a group of specific projects involving a total investment of about 276 billion lire of which the foreign exchange requirements amount to the equivalent of about \$98 million for imported materials and equipment. The attached memorandum contains a brief description of the various projects and estimated costs.

We have not yet completed an analysis of this application, but we have doubts at first sight whether the proposed expenditure (and in particular the foreign exchange requirements) can be completely justified by the Italian Government. Our preliminary thoughts are that a total expenditure of about 215 billion lire (and a foreign exchange expenditure of something less than \$50 million) would enable the Italian Government to complete about 90% of the proposed program.

The internal financing required has not yet been definitely arranged. The tentative plans of the Italian Government envisage long-term government loans to the extent of about 50% of the total requirements, and subject to agreement between E.C.A. and the Italian Government, these loans would be made with funds representing the local currency counterpart of E.C.A. grants.

I am bringing these proposals of the Italian Government to your notice for the following reasons:

- (a) I should like you to know in some detail the program which the Italian Government is proposing that the Bank should finance.
- (b) I should be grateful to have the views of E.C.A. whether this proposed program^{or} the Italian Government is consistent with the General approach of E.C.A. to the reconstruction of the Italian economy and to the recovery of Western Europe as a whole.
- (c) I should like you to know that the Italians have in mind the possibility that arrangements might be made for the "local currency counterpart funds" to be used to provide part of the internal finance for the program.

I should add that the Bank has not yet come to any decision as to whether or not it can extend credit to Italy, or if so, in what amount.

Attachment: Memorandum describing the specific projects included in the Italian Loan Application.

August 20, 1948

PROPOSED LETTER TO GRANT FORBES FROM LOAN DEPARTMENT
ON ITALIAN LOAN APPLICATION

The Bank has received a loan application from the Italian Government covering a group of specific projects involving a total investment of about 276 billion lire of which the foreign exchange requirements amount to the equivalent of about \$98 million for imported materials and equipment. The attached memorandum contains a brief description of the various projects and estimated costs.

We have not yet completed an analysis of this application, but we have doubts at first sight whether the proposed expenditure (and in particular the foreign exchange requirements) can be completely justified by the Italian Government. Our preliminary thoughts are that a total expenditure of about 215 billion lire (and a foreign exchange expenditure of something less than \$50 million) would enable the Italian Government to complete about 90% of the proposed program.

The internal financing required has not yet been definitely arranged. The tentative plans of the Italian Government envisage long-term government loans to the extent of about 50% of the total requirements, and subject to agreement between E.C.A. and the Italian Government, these loans would derive from the lire proceeds of sales of E.C.A. materials.

I should be grateful if you would take an early opportunity of bringing to the notice of O.E.E.C. the facts which I have set out above and of obtaining their views as to the suitability of these proposed projects in relation to the reconstruction of the Italian economy and of the economy of Western Europe as a whole.

If, in future, we have other applications from any of the E.R.P. countries for Bank financing, we would go through the same process of consultation with O.E.E.C. as we are adopting in this particular instance.

Attachment: Memorandum describing the specific projects included in the Italian Loan Application.

August 20, 1948

FILE COPY

Reconst. v ECA

CONFIDENTIAL

Mr. Chester McLain

DECLASSIFIED

17 August 1948

W.A.B. Iliff

APR 01 2022

E.C.A. Loan Agreement

WBG ARCHIVES

I think your draft has the merits of being shorter and clearer. You include the provision about payment of interest etc. in local currency, which is not in the E.C.A. draft. But even if this principle is not adopted, and if the operative words are left out, I think your draft is still better.

From the point of view of the Bank (as distinct from the point of view of the U.S. taxpayer!) is it not better that the "waiver" should be as far-reaching as possible? If so, ought we to advocate the inclusion of the local currency provision? "Blocked" accounts are popular nowhere - no more with creditors than with debtors.

I suggest, for your consideration, the substitution of "common" for "mutual" in line 4 of your draft.

*Reconstruct &
ECA*

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
Washington

FOR THE PRESS

FOR IMMEDIATE RELEASE

Press Release No. 112

August 16, 1948

Robert L. Garner, Vice President of the International Bank for Reconstruction and Development, announced today that Walter Hill, of the United Kingdom, has been appointed to assist Grant Forbes recently named liaison between the Bank and the Economic Cooperation Administration and the Organization of European Economic Cooperation in Paris.

Mr. Hill, who joined the Bank on November 1, 1946, has been an Assistant Loan Director. Prior to his association with the Bank, he was for seventeen years Senior Assistant Editor of the LONDON ECONOMIST.

*Copy filed
Press Release*



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

E.C.A.
File ECA

Paris, 13 August, 1948

Mr. Richard H. Demuth
Assistant to the Vice-President
International Bank
Washington 25, D. C.

Dear Dick:

Here are some additional documents for you. Several of them, especially the draft annual reports of some of the technical committees, are worth your reading. Would you pass the entire bunch along to Rist or Rodan. The usual security injunctions are, of course, applicable.

Sincerest personal regards,

Marty

Martin M. Rosen

MMR/dc

Encl. filed OEEC
RHS
12/29/48

Reconst. & Econ

FILE COPY

BELGIUM

Borrower: Societe Nationale de Credit a l'Industrie

Guarantor: Government of Belgium

Amount: \$16.8 million

Term: (a) \$6.8 million for 20 years
(b) \$6.0 million for 10 years
(c) \$4.0 million for 15 years

Purpose: To finance the entire foreign exchange costs of:

- (a) the erection of a central power station in Belgium (Linalux);
- (b) the installation of a new blooming mill (Ougree Marihaye); and
- (c) the construction of a cold rolling and tin-plating plant (Cockerill).

The Bank has agreed in principle to provide all the foreign exchange required for the projects, although Belgium has ample reserves of some of the currencies required. A general outline of the loan agreement has been agreed with the borrower and the Belgian Government. The guarantee agreement contains a negative pledge clause, and the Minister of Finance was about to introduce legislation in the Belgian Parliament a few weeks ago in order to obtain powers to give the Bank such a clause. According to latest reports, however, he is reluctant to pursue the matter further before Parliament in view of the fact that he will, in all probability, have to make a statement at the same time about the proposal that the Bank should issue dollar bonds on the Belgian market. The Belgians have asked how the Bank would view an attempt on their part to transfer the projects to E.C.A., and pending clarification of this question, negotiations are at a standstill.

This list was prepared for Mr. Garner's information when visiting E.C.A. on 13th August 1948

FILE COPY

FRANCE - POTASH

Borrower: Mines Domaniales de Potasse d'Alsace
Guarantor: Government of France
Amount: \$6.0 million
Term: Between 5 and 10 years
Purpose: Purchase of underground equipment and a flotation plant

Further progress depends on overcoming French resistance to a negative pledge clause and to giving the Bank a special lien on the proceeds of potash exports in the U.S.A. A final technical appraisal of the projects by engineering experts will also be necessary at a later stage if negotiations continue.

FRANCE - COLONIES

Borrower: There are three separate loan applications for colonial development. It is not yet decided whether the loan would be to one agency or to three separate borrowers.

Guarantor: Government of France

Amount: About \$15.2 million

Term: Not yet known

Purpose: Purchase of equipment for

- (a) Iron ore production at Conakry, French Guinea - \$6.0 million
- (b) Nickel refining facilities in New Caledonia - \$3.0 million
- (c) Oilseed production in Senegal - \$6.2 million

FILE COPY

-3-

FRANCE - COLONIES (continued)

A preliminary schedule of information required by the Bank for further consideration of the projects has been submitted to the Director of French Overseas Territories, New York, and further progress depends upon receipt of a reply from him.

GREECE

Although the Bank in early 1947 was informed by letter of the intent of the Greek Government to submit an application for a loan in connection with the Greek reconstruction program, no such proposal to date has been submitted.

ITALY

Borrower:	Probably a number of private firms as separate borrowers
Guarantor:	Government of Italy
Amount:	Approximately \$90 million on basis of projects submitted on behalf of the Government. Recent studies indicate feasibility of reduction to about \$40 million
Term:	Unspecified (long-term)
Purpose:	Reconstruction of iron and steel industry, electric power development; land reclamation; and shipbuilding.

The Italians have said they will probably be ready to enter into active negotiations by the 1st of September, 1948, when they anticipate that their position will be clarified with respect to E.C.A.

FILE COPY

NETHERLANDS

The Executive Director for the Netherlands has informed the Loan Director that Dr. Postuma, of the Finance Corporation for National Reconstruction, is about to visit the Bank in order to present some projects of an unspecified nature with a view to obtaining finance from the Bank.

NORWAY - (1) SHIPPING

Borrower: Apparently individual Norwegian Shipping Companies
Guarantor: Norwegian Government
Amount: \$20 -30 million
Term: 15 -20 years
Purpose: Refinance of short-term dollar debt on ships for reconstruction of Norwegian Merchant Marine

Further progress awaits an indication from the Norwegians of their intention to pursue the matter further.

NORWAY - (2) SHIPPING

Borrower: Apparently individual Norwegian Shipping Companies
Guarantor: Norwegian Government
Amount: \$15 million
Term: 10 years
Purpose: Buying or building ships for Norwegian Merchant Fleet

Further progress awaits an indication from the companies of a firm intention to request the loan and the receipt of assurances from the Norwegian Government concerning sponsorship and guarantee.

TURKEY

(see following page)

FILE COPY

TURKEY

Borrower: Republic of Turkey
Amount: Originally requested (early last spring) -
\$238,400,000
Term: Not discussed
Purpose: Development projects in Agriculture, Transport and
Industry.

In conversations held early this spring, representatives of Turkey were advised of the inability of the Bank to consider a general loan of this magnitude, and it was suggested that the Turks submit a list of projects not to exceed \$40 to \$50 million in the aggregate which could be completed by the end of 1950. We are now awaiting submission by Turkey of the new list.

U. K. COLONIES

As yet no requests have been made of the Bank for loans in connection with the U.K. Colonies. However, U.K. Colonial Office representatives have indicated their intention to place at least one and possibly several Colonial proposals before the Bank in early autumn. Projects most likely to come forward are:

1. Request of Overseas Food Corporation for loan to finance portion of E. African Groundnut program;
2. Request of Colonial Development Corporation for loan for purchase of agricultural and earth-moving equipment.

Requests may also be made by several Colonial Governments. Size and term of proposed loans as yet unknown.

FILE COPY

-6-

TIMBER EQUIPMENT LOAN

Borrower: Timber producing countries - Finland, Poland, Czechoslovakia, Austria and Yugoslavia.

Amount: \$8 million

Term: Not decided, but probably not over 2 years.

Purpose: To increase timber production by Eastern European Countries for export to Western Europe.

The Timber Committee of ECE is trying to get precise information concerning such matters as:

1. The exact type of equipment needed and the amount which could be obtained in Western Europe;
2. The amount of additional timber that could be produced and the arrangements that could be made for its purchase by Western European countries.

The Bank is investigating whether, in respect to the equipment required from the U.S., the U.S. authorities are likely to be willing to grant export licenses without delay. The Timber Committee of ECE will probably be reconvened in the middle of September for further consideration of the matter.

FILE COPY

Loan Policy

Mr. R. L. Garner

11 August 1948

W.A.B. Iliff

I understand that you have recently discussed with E.C.A. the desirability of the Bank's sending out some notification to each of our Western European borrowers dealing with the necessity of their keeping the Bank informed of whatever loan obligations they enter into with E.C.A. I had been on the point of doing this but I am holding my hand until I hear further from you.

WABI/emc

608

Mr. Paul N. Rosenstein-Rodan, Economic Dept.

August 3, 1948

D. Crena de Iongh, Treasurer

I am sending you herewith a copy of an ECA memorandum dated July 22 on the implementation of a scheme intended to promote trade between participating countries.

DC/mct
enc.

OFFICE MEMORANDUM

DATE: August 4

TO: Mr. D. Crena de Iongh *P.R.*

FROM: Paul N. Rosenstein-Rodan

SUBJECT:

Attached is a study on "Interest and Amortization Payments of E.C.A. Countries to Western Hemisphere 1949-1960". The debt service figures, which were compiled in the Economic Department, should be treated as "confidential" until the Executive Directors have been able to check them and comment on them.

Attachment 1

8/5.

July 28, 1948 *ECS*

Payment in dollars for intra-European, or off-shore purchases under ERP

Notes from telephone conversation with Mr. Clark Simpson, Assistant Comptroller of ECA.

1. "Off-shore" procurement, as ECA calls intra-European purchases under its program, are very small in amount up to now. The announced policy of requiring that recipient countries spend a certain percentage of the dollars granted them in some other European country has not yet been put into practice.

2. In the off-shore procurement that does occur, two methods of payment are in use, and a third is under discussion.

a. Reimbursement.

8 Recipient country buys in another (European) country.
Invoice and payment are in dollars.
ECA makes reimbursement to the recipient country in dollars.

b. Letter of commitment.

Recipient country buys in another (European) country.
Invoice is in dollars.
ECA bank makes payment in dollars directly to the supplier.

c. Under discussion, Direct payment by ECA.

Recipient country would buy from another (European) country.
Invoice would be in dollars.
ECA would make payment in dollars directly to the supplier.

3. To date all ECA business has been in U. S. dollars. There have been no occasions of invoicing in local currency, therefore no occasion to reimburse in anything but dollars. In one exception, the U. K. made a purchase in Canadian dollars. Here ECA made its reimbursement in U. S. dollars, but only after very definite assurance that the U.K. had bought its Canadian dollars against U. S. dollars when it made the original payment.



**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

WASHINGTON 6, D. C.

Mr. Iliff

27th July 1948

A.S.G. Hoar

ECA LOANS

We had a short discussion at the Staff Committee Meeting yesterday on the subject of ECA loans and agreed that there was an obligation on our European borrowers to consult with us about the ECA loans, just as much as any other type of external borrowing. In order to see that they do not slip up on this obligation it was agreed:

- (a) That Garner would have a word with the ECA Administration; and that thereafter,
- (b) you or I would make arrangements to have an informal word with Valensi, Soutendijk, Ahlefeldt and Le Gallais.

ASGH/ts

MAC ECA
JUL 26 REC'D

OFFICE MEMORANDUM

TO: Mr. McCloy
FROM: Mr. Hooker
SUBJECT: ECA Loan to United Kingdom

DATE: July 26, 1948.

At a meeting of the Staff Committee on Friday afternoon it was agreed to recommend the following terms to the Council which is to consider the matter tomorrow afternoon:

Amount of Loan - \$300 million. The British would have the right to discuss the amount of the loan at any time during a quarter under consideration if it should appear that the ratio with respect to grants was becoming less favorable to the United Kingdom.

Interest Rate - $2\frac{1}{2}\%$.

Period of Repayment - 50 years from date agreement signed.

Period of Grace - June 30, 1952 on interest, and June 30, 1956 on amortization.

No waiver clause and no mention of Anglo-American loan of 1945 but a general clause similar to the following:

"Payments of interest and/or principal may be postponed if both parties agree that because of extraordinary and adverse economic conditions arising during the course of payment any periodic payment would not be to the common advantage of both governments."

All agencies except the Export-Import Bank are in agreement with the recommendation. The Export-Import Bank recommend 3% and 35 years.

cc: Mr. Demuth

ECN
OEFC

July 22, 1948

W. Averill Harriman
American Embassy
Paris, France

X

IN ACCORDANCE YOUR DISCUSSIONS WITH GARNER SENDING GRANT FORBES TO PARIS
FOR LIAISON WITH YOUR ORGANIZATION. WILL ARRIVE BEFORE AUGUST 15.

McCLOY

R. L. Garner
Vice President

ECA

July 22, 1948

Mr. E. L. Kohler, Comptroller
Economic Cooperation Administration
Marlboro Bldg.
800 Connecticut Avenue, N.W.
Washington, D.C.

Dear Mr. Kohler:

I was sorry not to be here to meet you at the time you visited the Treasurer's Office of the Bank.

Mr. Aldewereld and I plan to go to Europe about the middle of August and will be in Paris in September. We would certainly like to have an opportunity while there of meeting some gentlemen of E.C.A. as we think that their experiences in Europe will be very valuable for our work, and also I think it might be very useful to compare notes.

I would like very much to come to see you and make your acquaintance before my departure and I would ask you to let me know when I could visit you next week.

Yours sincerely,

D. Crena de Iongh
Treasurer

DC/mct



Record Removal Notice

File Title United States Government Agencies - Foreign Aid - Export Rehabilitation Project [ERP] and Economic Cooperation Administration [ECA] - Correspondence		Barcode No. 1071210		
Document Date July 14, 1948	Document Type Memorandum			
Correspondents / Participants From: John McCloy To: Executive Directors				
Subject / Title Economic Cooperation Administration				
Exception(s)				
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		<table border="1"> <tr> <td>Withdrawn by Ann May</td> <td>Date April 08, 2022</td> </tr> </table>	Withdrawn by Ann May	Date April 08, 2022
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ECAP
JUL 13 REC'D

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

WASHINGTON 25, D. C.

July 13, 1948

Mr. John J. McCloy, President,
International Bank for Reconstruction
and Development,
Washington, D. C.

Dear Mr. McCloy:

In the note I handed to you this morning I omitted to express a view on whether interest rates on ECA loans should be uniform for all countries or adjusted to the individual circumstances of each country.

I think this problem raises serious difficulties. A reading of the Congressional documents suggests that differential charges are not only definitely envisaged but that they are also considered as one of the means of adjusting the type of assistance to each country's capacity to pay. I think, however, that there are considerable disadvantages to such a solution.

In the first place the possibility of obtaining differential treatment would encourage individual bargaining rather than cooperative action among Europeans, with the countries possessing the greatest bargaining strength, which may also be the strongest ones, trying to get the most favorable terms for themselves.

In the second place it would involve ECA in invidious decisions: if capacity to pay is to be the criterion for fixing the terms it may again act as a premium to inefficiency by penalizing those countries which have been most successful in restoring their economic position. The criterion of need rather than performance bears already heavily enough on ECA activities to make it desirable, whenever possible, to avoid the adoption of procedures that might result in a further discouragement of self-help. On the other hand, to make the charges conform to the credit standing of the recipients would be wholly against the purposes of ECA and would penalize the weak.

Uniform charges are a way out of these difficulties and in addition they would contribute to the creation of a sense of unity among European nations and check tendencies toward a return to traditional rivalries.

Yours sincerely,

K. Varvaressos

NOTE ON COMMON PROBLEMS OF THE BANK AND ECA

by K. VARVARESSOS

All relevant Congressional documents emphasize the point that the purpose of ECA assistance is recovery and not mere relief.^{1/} Recovery, in contrast to relief, is understood to mean the restoration of self-sufficiency at levels which will ensure internal stability and the revival of world-trade. An essential condition for the recovery of European nations is the modernization and reequipping of their industries and the achievement of greater productive efficiency. Thus physical reconstruction and improvement of the European apparatus of production are part of the concept of recovery as defined by Congress and are specifically mentioned as one of the forms which ECA assistance should take. At this point, therefore, ECA will be engaged in a field of activity which is of special interest and concern

^{1/} Report of Committee on Foreign Relations No. 935, Feb. 26, 1948, p. 46
"This bill . . . is . . . a recovery bill and differs from the interim aid and earlier relief measures in that its primary concern is the recreation of a strong, productive, self-supporting western European economy."

Foreign Assistance Act of 1948

Title I Section 102 (b) - "It is the purpose of this title to effectuate the policy set forth in subsection (a) of this section by furnishing material and financial assistance to the participating countries in such a manner as to aid them, through their own individual and concerted efforts, to become independent of extraordinary outside economic assistance within the period of operations under this title, by-

(1) promoting industrial and agricultural production in the participating countries;

(2) furthering the restoration or maintenance of the soundness of European currencies, budgets, and finances; and

(3) facilitating and stimulating the growth of international trade of participating countries with one another and with other countries by appropriate measures including reduction of barriers which may hamper such trade."

to the Bank. Whether this will mean competition and overlapping or collaboration and coordination will depend on the early establishment of a working relationship between the two agencies based on clearly defined principles and on the realization that success for each of them **requires** joint efforts and a common approach.

In establishing this relationship it may be useful to keep in mind the following considerations:

1.- While assistance for the reconstruction of Europe is definitely part of the Recovery Program, assistance to European recovery under that program is conceived in broad enough terms to include such things as the provision of incentive goods that might reflect itself in greater labor efficiency. Thus the Report of the Committee on Foreign Relations dated Feb. 26, 1948, p. 47 enumerates the following items as falling under the heading of recovery-type goods:

"incentive goods (such as tobacco and coffee), farm supplies and equipment, industrial raw materials, coal-mining machinery, capital equipment and parts and components for machinery and equipment."

These are contrasted with relief-type goods such as "Food, fuel, fertilizers and cotton and wool fibers."

It follows that while reconstruction is included in recovery the two concepts are not identical. Recovery in the sense of the ECA Act extends beyond the scope of the Bank's activities which must under the Articles of Agreement be confined to reconstruction loans in the strict sense. Nor do the Bank's special responsibilities toward the investing public permit such a broad interpretation of the concept of recovery. This consideration should be kept in mind by both agencies when discussing their respective fields of activity.

2.- The distinction between assistance in the form of grants and assistance in the form of loans does not wholly coincide with the distinction between recovery and relief. The previously quoted Report of the Senate Committee makes it quite clear that while "to the fullest extent practicable . . . payment should be made of loans used in order to finance imports of capital equipment and raw materials in connection with capital development, and grants should be used to finance imports of supplies of food, fuel and fertilizer . . . it would be unrealistic to require a participating country to contract dollar debts now if it does not have the capacity to pay without jeopardizing the purposes of the program." In accordance with this principle the Committee classifies Greece and Austria as countries

where assistance will be "entirely by grants" although in the overall illustrative allocation of funds between relief-type and recovery-type goods both countries are allotted substantial amounts for reconstruction. Inversely countries in a relatively strong position may have to accept the obligation to repay even for assistance intended to meet current needs alone.

Thus it will be the capacity to repay rather than the type of assistance that will be the operative criterion. This means that it is not all lending activities of ECA but rather those concerned with reconstruction that will be of immediate interest to the Bank. And inversely the Bank should not remain indifferent to the work of reconstruction carried out through grants since the recipients may be prospective or even actual borrowers from the Bank whose activities in the field of reconstruction are bound to influence the Bank's policy and decisions toward them.

3.- Does the present reluctance of European Governments to accept loans from ECA imply a general reluctance to borrow for reconstruction and if it does is there a danger that ECA lending activities may encroach on the role which the Bank properly expects to play in the carrying out of European reconstruction?

I think that before answering this question one should try to ascertain the reason for that European reluctance to accept loans from ECA.

In my view the reason is two-fold:

(a) European countries are quite understandably anxious not to burden the future with dollar loans the servicing of which is bound to be an onerous undertaking under the best of circumstances and may involve them in defaulting if the world economic situation develops unfavorably. It is even more understandable that they should try to obtain the maximum possible aid in the form of grants rather than in the form of loans.

(b) There is an increasing reluctance to devote large resources to investment as opposed to current consumption. The lesson that investment means austerity or inflation has been learned and a reaction against trying to do too much and in favor of stabilizing existing conditions at a level of consumption that is acceptable to the population has set in in most European countries. The contrast is increasingly drawn between the experience of Belgium which kept reconstruction to a minimum and has achieved a remarkable degree of financial stability and France which made a valiant attempt to put investment first in the

list of priorities and is still suffering from the paralyzing effects of inflation and distrust of the currency. Foreign assistance for reconstruction would have been greatly welcomed if it could have taken care of all the expenses of reconstruction, internal as well as external. Since, however, this is not contemplated but on the contrary the largest proportion of reconstruction projects is expected to be carried out with the countries' own resources, reconstruction loans involve inflationary pressures or a degree of austerity that are certain to be strongly resisted by the population. Moreover, hard-pressed governments tend to think in terms of this year and next rather than of 1952 and 1953. To me at least, some of them seem to expect more from the fall in the prices of primary products and the restoration of their traditional trade connections than from any spectacular improvement in their industrial efficiency and the strengthening of their competitive positions in world markets.

Does this then mean that European countries may refuse to take loans from ECA and limit themselves to grants? In other words does this mean that the funds which ECA must use in the form of loans will remain unspent? My impression is that this is not likely to happen. I base this conclusion on the following considerations:

My interpretation of the Congressional authorization is that the total amount of grants cannot exceed \$4 billion and that the balance

of \$1 billion must necessarily take the form of credits or loans. If these \$4 billion had been sufficient to meet the present gap in European foreign payments it is conceivable that the reluctance of European countries to borrow and devote large resources to reconstruction might have led to part of the \$1 billion remaining unspent. But this is not the case. The \$4 billion aid is far below Europe's current rate of dollar expenditure and will have to be supplemented by the use of the remaining \$1 billion if imports are not to be drastically reduced in the near future. Only a sharp fall in world prices or very spectacular progress in Europe in the next few months can alter this fact. If this is so the present reluctance of European Governments to borrow should be viewed as a temporary phenomenon which will not last beyond 1948. So long as ECA funds are still available for grants there will be no hurry to contract loans but it is my impression that when the funds near exhaustion the European attitude will change radically. It is sufficient to recall that last year borrowing from the International Bank to meet what were mostly current needs was eagerly sought by a number of governments in spite of the much heavier burdens involved. There can also be little doubt that the Bank would have been swamped with European applications for loans if assistance had not been made available under the ECA program. Similarly, so long as allocations

to individual countries are provisional and governments can hope to be able to increase their share of the grants they will be reluctant to commit themselves to borrowing. One of the less satisfactory features of ECA legislation is that while the total amount of grants is fixed their allocation among the individual countries is left to administrative decision. This was inevitable in order to avoid undue rigidity in the program but in my view it is essential to the success of the whole effort that the uncertainty with regard to individual allocations be removed as soon as possible. So long as the amount of aid each country may get remains indeterminate and subject to change, the fear that an improvement in their position might mean a cut in foreign aid is bound to affect adversely the recovery effort of the individual countries, foster rivalries and act as an obstacle to real cooperation among them. I think that if ECA assistance is not to become a premium on inefficiency it is important that the organization should proceed without delay in making final allocations and announcing them as such to the European governments, making it quite clear at the same time that it will stick to them throughout the duration of the program and will resist any pressure to alter them in favor of one or the other country. I recognize the difficulties involved in this approach. Allocations covering a whole year can never be final because events may require a revision

of the assumptions on which they were based. This difficulty could, however, be overcome by leaving a sum unallocated as reserve and defining in advance the conditions under which additional aid from that reserve might be made available.

It is my impression that once European Governments know what they can expect from ECA they will be much freer to devote their energies to self-help and real cooperation. I also think that their present objections to borrowing will disappear over-night and that they will be eager to supplement their allocations of grants, which in practically all cases will prove to be below minimum current needs, with assistance in the form of loans. But even if these objections prove to be more deep-rooted than I am at present willing to believe, it is doubtful that they will result in substantial ECA funds remaining unspent by the end of the first-year program of assistance. It is difficult to imagine that the European Governments will fail to realize what a deplorable impression their refusal to accept anything but grants will have on Congress and how unfavorably it will affect the prospects of future aid. It requires no exceptional foresight to predict that such a refusal would be widely interpreted by those hostile to the Program and even by many of its supporters as evidence that European countries do not mean business but are simply out to get as much as they can while the going is good.

4. Even if my assumption is correct that the present objections to borrowing will collapse in the next few months and that no ECA loans will go begging for customers, the problem for the Bank still remains of how will these loans be spent. Will they be used to carry out projects of reconstruction which might otherwise have been financed by the Bank? Several tendencies will be at work here. On the side of the European countries, or at least of some of them, there will be a first impulse to use loans only for strictly productive purposes, thus avoiding the danger of burdening the future with dollar debts that will not have created a margin for repayment. I believe that this impulse will be more than checked by the insufficiency of the resources that will be available to meet current needs. The debate has already started in many European countries as to whether it is consumption goods or industrial materials and equipment that are likely at this moment to contribute most to recovery. According to a press report, a lively discussion is going on in France as to whether some \$180 million should be allocated to foodstuffs or industrial materials with the Socialists, oddly enough, pressing for the former course. And it must be recognized that, given the degree of austerity that a ^{free} population will tolerate, more may often be lost to recovery by the lack of incentives than might be gained by the increase in investment. It is therefore my impression

that, whatever the original intentions of the countries, in ^{actual fact} ~~the event~~ ECA loans will be used in large part to supplement current needs rather than initiate programs of long-term reconstruction.

On the side of ECA one must expect that there will be an understandable desire to check this European tendency to favor consumption as against productive investment. Unlike European Governments which tend to be affected by electoral and other short-term considerations, the ECA cannot lose sight of the ultimate objective of the program which is to create the foundations for a real European recovery. This objective cannot be achieved by maintaining consumption levels alone. It requires a determined effort to improve the productive machinery of European countries and raise their industrial efficiency. Thus ECA is bound to insist that its loans be used for productive purposes. At the same time, however, it should keep in mind that the facilities of the Bank are available to take care of those projects which are of a highly productive character and in connection with which prospects of repayment are good. The temptation for ECA to favor projects that will enable it to draw the best results in the field of reconstruction will be there but I think it is in the interest of all concerned that it should be resisted. I base this view on the following considerations:

(a) ECA must spend its funds in less than one year and can make no commitments for additional funds in the coming years. This means that, unlike the Bank, it is not equipped to handle projects such as the highly productive reconstruction and development projects which the Bank was created to finance and which require several years to be completed.

(b) Similarly ECA does not possess the technical organization required for the processing and following up of loans that will be applied to long-term specific projects and it would be a waste to duplicate the machinery which the Bank has gradually built up.

(c) ECA has much greater latitude in the use of its funds than is open to the Bank and has been given wide discretion by Congress in determining the conditions of its loans. The Bank's standards of lending, on the other hand, must meet the exacting conditions imposed by the Articles of Agreements and by its dependence on the market. A proper division of labor between the two institutions would therefore require that ECA concentrate on rather short-term projects, promising quick benefits to European recovery but unlikely to create a sufficient margin for servicing dollar loans at commercial terms, ^{and should} leaving to the Bank those projects which give the best promise of repayment. Such a policy would increase the total sum that may be

made available for European recovery; it would strengthen the Bank's credits in the capital market and revive the public's confidence in foreign investment; finally it would conform to the express views of Congress as stated in the already mentioned Senate Report.^{1/}

If the idea of competition is removed from the beginning from the relations between the two institutions they can establish a close and fruitful collaboration that will bring considerable advantages to both and will mean much for the success of European recovery. ECA's decision during the next few months rather than Bank activities will determine the scope of such cooperation since the initiative for the time being necessarily belongs to ECA. In my view it is unlikely that the Bank will be able to resume its lending activities in Europe before the ECA program takes definite shape and begins to show results and certainly not before 1949. This, however, does not mean that the establishment of a working relationship with ECA should be left to a future date. I think it is important that such relationship be created without delay. The problems of European reconstruction is one whole

^{1/} p. 52 ". . .the bank can lend only to those countries with long-range reconstruction and development programs and whose credit standing indicates that repayment prospects are goodIt could be tied into later stages (of the program) when long-range development projects can be more properly financed on the basis of hard loans."

whose different parts must be made to fit together if the result is to be order and not chaos. This means that those who will be handling different aspects of that problem must work together and coordinate their activities. It will not do, for instance, for ECA to make certain assumptions with regard to European integration and European self-sufficiency and for the Bank to shape its lending policies on the basis of a different set of assumptions. That this will happen without close consultation between the two agencies is a virtual certainty: the problem of European reconstruction may be one whole but it is also a jig-saw puzzle that requires careful fitting together to produce a meaningful picture. Similarly it will not do to deal with isolated and unrelated projects, hoping that if they appear sound in themselves they will somehow contribute to European recovery. It is necessary in each case to find out what they will contribute to recovery and how they compare with each other. This study of the projects must be a joint undertaking by the two agencies irrespective of which finances which, since there is no project, by whatever agency it may be financed, that will not have some effect on the activities of the other agency.

5. Another point at which the activities of ECA may affect the work of the Bank is the determination of the conditions under which

ECA loans will be made. Is the fact that ECA has more latitude than the Bank to fix the terms of its loans in accordance with the borrower's capacity to pay going to affect the lending activities of the Bank? Should the Bank take the view that ECA loans, if made under terms more favorable than those of the Bank, may curtail the scope of the Bank's rightful activities?

I think that the answer to these questions should be unequivocally in the negative.

The argument that in making loans ECA is engaging in ordinary lending activities and should therefore try to follow commercial principles in granting its loans would have been valid if ECA had been left free to determine what proportion of its total funds should be used as grants and what proportion as loans. In such case there might have been some advantage in adjusting the type of assistance to the country's capacity to pay through the grant-versus-loan relationship and charging on that part of the assistance given in the form of loan commercial rates of interest. This, however, has not been the course adopted by Congress. Congress, rightly in my view,^{1/} has preferred to fix the proportions of loans to ~~grants~~ in the total assistance and leave it to ECA to adjust this fact to the countries' capacity to repay through the fixing of the terms of repayment. Not

^{1/} I say rightly because I think that the alternative would have constituted an artificial attempt to give the impression of "normality" to operations which are entirely outside the scope of ordinary business ~~arrangements~~^{transactions}. Moreover by making necessary a larger proportion of grants to loans this alternative would have unduly encouraged European Governments to think of outright grants as something due to them and involving no responsibilities on their part.

only has Congress allowed wide discretion to ECA in the fixing of the terms of the loans but it has given a clear indication that it contemplates low interest charges. At least this is how I interpret the provision of the Foreign Assistance Act ^{which states} (that the notes that will be issued by the ECA Administrator for the purpose of making loans "shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of the note."

In the second place, the fact that the criterion of the loans is to be the capacity to repay precludes the charging of commercial interest rates. Such rates would impose a burden on the countries concerned that might in part defeat the purpose of the Recovery Program.

In the third place, even if commercial rates were to be charged, the terms of ECA loans would still be considerably more favorable than those of the Bank. This would be due primarily to the charging by the Bank of the one per cent guarantee but also to the 1/4 per cent additional charge and to the fact that the Bank's standing in the market is inferior to that of the U.S. Government. Thus, the less favorable terms on the Bank's loans would remain even if ECA charged the full commercial rates and of course to ask ECA to increase its charges above their commercial

level merely in order to equalize them with those of the Bank would be senseless and there could be no justification for it. The heavier charges of the Bank are not due to any deliberate policy of the Bank but to the way it was set up. Both the payment of a guarantee and the dependence on private funds, which are entitled to expect a good return, are features of the Bank's organization which member countries have accepted of their own free will as representing the most effective methods of promoting international investment. They cannot therefore blame the Bank if its charges, as a result of these two features of its organization, are heavier than they might otherwise have been. ECA, on the other hand, was set up under entirely different circumstances and on quite different principles. It represents a contribution from the people of the U.S.A. to the people of Europe spurred by the realization that the balance has been tipped too much against the old world to make prosperity possible in the world and that European recovery would benefit the United States no less than Europe. The American people are not thinking of this contribution as an investment that will give them collectively a profitable return on the money spent. Repayment is a sound principle but high interest rates do not make much sense.

Finally, heavy charges for the servicing of ECA loans would weaken the financial position of the borrowing countries and thereby jeopardize their prospects of future borrowing from the Bank as well as their existing commitments to the Bank. They would thus be wholly against the interests of the Bank itself.

These are weighty considerations to set against the doubtful advantages of discouraging competition from ECA lending activities by asking for comparable interest charges and it seems to me that the psychological effect on European countries of such a defensive attitude by the Bank would do much more harm to our institution than any degree of competition that ECA lending may involve.

FILE COPY

*Europ Reconst -
IBRD & ECA*

Mr. J.J. McCloy.

July 10, 1948.

W.A.S. Iliff.

IBRD and ECA Operations in Marshall Europe.

Mr. Crena de Iongh, Mr. Rosenstein-Rodan, Mr. Luxford, Mr. Demuth, Mr. Hill and myself have been studying possible bases for the co-ordination of the Bank's loan activities in Western Europe with the operations of ECA.

2. We have come to certain conclusions which we should be grateful to have you consider as a possible approach to Mr. Hoffman in your coming conversations with him.

3. We have set out these conclusions very briefly in the attached memorandum. We have not attempted to argue them in detail. I thought it would be better for you to have a very short paper rather than a lengthy document painting in a background which is quite familiar to you.

4. I think it would be very useful if you could find time to sit in with us to discuss these conclusions before you see Mr. Hoffman.

WABI/mlc

c.c. Mr. Crena de Iongh
Mr. Rosenstein-Rodan
Mr. Luxford
Mr. Demuth
Mr. Hill

File copy.

PROPOSED BASIS OF CO-ORDINATION
OF
IBRD AND ECA OPERATIONS IN MARSHALL EUROPE

A.....ASSUMPTIONS

1. Any recommendations about the conditions in which the Bank could effectively operate in Marshall Europe alongside ECA must necessarily be based on a number of assumptions. The assumptions that have been made are these:

- (a) The appropriations voted for the first stage of ERP will be exhausted during that period;
- (b) ECA assistance will continue for four years, and, during the last three years, will be in a proportion to calculated needs corresponding roughly to that of the first year.
- (c) The appropriations themselves are likely to be short of the amount needed for the fulfilment of the stated objectives of the Marshall Plan. Any additional funds would be helpful, to the extent that they add to the funds available for investment in Western Europe.

B.....RECOMMENDATIONS

2. On the assumptions that ECA assistance is likely to fall short of the needs of Marshall Europe and that it is desirable for the Bank to supplement this assistance, any funds made available by the Bank would be helpful to Marshall Europe as a whole. Funds made available by the Bank,

however, would not necessarily benefit individual countries evenly. Moreover, ECA is able to make loans on terms more favorable than the Bank. Consequently, individual Marshall countries are likely to show reluctance in approaching the Bank, at any rate until the exhaustion of ECA aid.

3. Secondly, from the Bank's point of view, the existence of substantial external indebtedness and the prospect of additional indebtedness arising from ECA loans may hamper the Bank's operations in a number of Marshall countries.

4. These obstacles could be removed (i) by an early clarification of the conditions in which ECA and Bank loans are to be made available, and (ii) by arrangements for some degree of subordination of ECA loans to Bank loans.

5. It is recommended that: -

(a) the Bank should be willing to supplement this year's Congress appropriations by way of direct and guaranteed loans to the extent of about \$250 million. (This would mean that the total amount available to Marshall Europe from ECA and the Bank together would amount to \$5.3 billion; of this total, \$1.25 billion would be available in the form of loans).

(b) the Bank, in agreement with ECA, and in consultation with OEEC, would finance projects to the value of roughly \$250 million a year, selected from the investment programs of Marshall Countries drawn up by OEEC.

(c) as far as possible, this selection should be from the field of long-term capital projects that would come into production towards or after the end of the Marshall period.

Selected by whom?

- (d) the Bank should finance only the direct import needs of these projects (i.e. finished equipment and raw materials).
- (e) ECA should agree that, for each individual country, the ratio of ECA grants to the combined total of ECA and Bank loans should be at least not less favorable than would have been the ratio of ECA grants to ECA loans if the Bank had made no loans.
- (f) the terms of ECA loans should take account of the fundamental economic adjustments needed to restore and maintain equilibrium in the dollar income and expenditure of Marshall Europe, and of the additional difficulty of creating a surplus sufficient to meet the interest and amortization payments on existing and future loans. ECA loans should, therefore, be made on conditions which would contain all or some of the following easements: -
- (i) waiver of interest and/or postponement of repayment of principal, where the financial circumstances of the borrower justify it.
 - (ii) low interest rate
 - (iii) repayment over long period of years

The adoption of such terms would both assist in obviating the damage caused by inevitable defaults and facilitate lending by the Bank, not only during the period of ECA aid but also when this aid has come to an end. Moreover, ECA lending on such terms

would, in effect, subordinate ECA loans to loans
by IHSB.

- (g) the Bank in making its loans would apply its usual
financial tests, its usual legal conditions, and
its usual conditions for the supervision of the
projects.

10 July 1948

ECA

OFFICE MEMORANDUM

TO: Mr. D. Crena de Iongh

DATE: July 9, 1948

8/7/48

FROM: H. R. Slusser

SUBJECT: Special ECA allotments to stimulate payments
and trade within Europe

A statement issued yesterday by a spokesman for the ECA indicated that ERP countries will be required to use a part of the dollars allotted to them under the Program for purchases in other participating countries. Definite amounts of the dollars allotted to each country in the future will be restricted to European purchases. Outsiders expect that the selling country in the first transaction will be free thereafter to use the dollars for purchases in the United States if it so desires.

The ECA explained that the measure was intended to meet the current situation wherein ERP countries make their purchases in the dollar area while European producers are unable to sell their output of substantially the same items. This condition has been noted in some Bank studies, particularly in relation to coal. Universally it is recognized as an undesirable development.

This type of "offshore" purchasing under the ERP has figured in many of the discussions of methods for freeing the European trade and payments situation, but until now only as a suggestion from Europeans. Now it is made specific by an announced policy of the ECA. In an article under a Paris dateline, the United States is reported to be opposed to providing dollars for a special fund to facilitate European payments, as has also been frequently suggested, but to favor the use of local currency counterparts for the same purpose. The ECA announcement, however, makes no statement about either of these attitudes.

Both articles: New York Times, July 9, 1948, p5, c5.

HRS/mct

HRS Slusser

cc Mr. Riley
Mr. Aldewereld

ROUTING SLIP

Date July 9.

TO-		Name	Room No.
1		Mr Crena de Trough.	1201
2			
3			
4			

FOR-			
	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

FROM- Walter Hill

Reconst ECA

IBRD AND ECA OPERATIONS IN MARSHALL EUROPE

1. On July 6, Mr. Iliff met with Mr. Crena de Iongh, Mr. Demuth, Mr. Luxford, Dr. Rosenstein-Rodan and Mr. Hill to initiate a discussion with the objectives of

(a) defining, in principle, the conditions in which the Bank could effectively operate in Marshall Europe alongside ECA, and

(b) formulating recommendations for consideration by the President about the attitude of the Bank towards ECA.

2. It was agreed, in principle, that

(a) The Bank should supplement ECA assistance to Marshall countries and should be prepared to consider the financing of appropriate projects within their investment programs insofar as such projects can be justified within the limits of the resources that can be made available by the Bank for this purpose.

N.B. The meaning of "appropriate projects" and the order of magnitude of the commitments that the Bank could make during the first Marshall year were not defined.

(b) A formula should be devised, and submitted to ECA for consideration, with a view to ensuring that any loans requested from, and made by the Bank should not merely replace ECA assistance but should be over and above the total amount appropriated by Congress and, if this were possible, over and above the amounts earmarked for individual countries.

N.B. (1) In the order of their attraction to them Marshall countries will seek to obtain as large a proportion of grants before they turn to ECA loans, and they will exhaust ECA loans before applying for Bank loans. The extent to which they will seek Bank loans depends on their marginal needs. Some time will elapse before the countries concerned will know roughly what they can expect to obtain by way of allocations, but even then, periodical reviews by ECA may result in significant changes between initial and final allocations. This means, first, that the Bank could not expect to be able to supplement, by

does not this mean that before we know how to do it we will not give any

advance arrangements, the amount of assistance obtained by individual countries, and, secondly, that the Bank may not receive many applications for loans until towards the end of the first Marshall year and then mainly for loans designed to fill any remaining needs that will not be met by ECA or the "Fund" in that year. This process would be repeated in subsequent years, that is the Bank would be approached mainly for the purpose of financing any remaining deficits in the balances of payments, though these could be disguised as projects.

*Lack of
having the
supplement
investment*

(ii) Two types of approach were suggested to prevent this sequence of events (on the assumption that it should be prevented).

First, ECA might allocate definitely the total amount available in grants to individual countries; knowing the amounts available to them in the form of grants, the countries would then be encouraged to apply to ECA and the Bank for loans.

Secondly, on the assumption that the whole of the appropriations by Congress will be spent, ECA might be asked to state publicly that they would ignore Bank loans in their allocations, thus encouraging the countries to apply immediately for loans for the kind of projects that might be defined by the Bank. The Bank's case might be that its total contribution by way of commitments in the first Marshall year would be equivalent to only about 5 per cent. of Congress appropriations. The Bank, moreover, would be able to select the kind of projects it considers most appropriate.

(iii) The real issues are whether the Bank, in fact, desires to add about 5 per cent. to the amount appropriated by Congress, and, on the assumption (how valid is this?) that all of it will be spent, in what form this contribution could most usefully be made.

(c) There was a real danger that the Bank's lending operations in some countries might be rendered difficult unless ECA took good care in arranging the ratio between grants and loans and the terms of its loans in such a manner as not to burden them with interest and repayment charges beyond their reasonable capacity.

N.B. (1) Statistics showing the annual cost of the existing external dollar and other indebtedness in future years of individual countries are in preparation as a basis of comparison and judgment.

(ii) About terms of ECA loans, there are two schools of thought:

One holds that the terms should be on something like a commercial basis because (a) this might limit borrowing to "essential" needs and avoid the demoralising effect of "easy money" and (b) it might prevent claims for equally "easy money" from, say, Latin America.

The other holds that the terms should be as lenient as possible, with low interest rates, long periods of repayment, and waiver clauses for interest as in the British Loan Agreement (see attached extract) and, perhaps, even for repayment. The arguments underlying this school of thought are the familiar economic ones based on past experience.

(iii) Bank loans would obviously be more secure if the second choice were adopted, though the Bank's interest, of course, is not necessarily the decisive consideration

(d) In any case, it would be desirable to ensure preferential treatment for Bank loans in the event of the inability of borrowing countries (past and future) to meet interest and repayment charges on both U.S. Government and Bank loans, and, to this end, to explore the possibilities of drawing a distinction between ECA and Bank loans which should be implicit, if not explicit, in the terms of loans, in the Bank's provision for supervision, and in other ways.

N.B. Apart from a brief discussion about the two schools of thought on the terms of ECA loans, the possibilities of differentiation were not defined.

*difficult to
make distinction
between countries*

July 9, 1948.
WH/mlc

ANGLO-AMERICAN FINANCIAL AGREEMENT.

"5. Waiver of interest payments. In any year in which the Government of the United Kingdom requests the Government of the United States to waive the amount of the interest due in the installment of that year, the Government of the United States will grant the waiver if:

- (a) the Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves and
- (b) the International Monetary Fund certifies that the income of the United Kingdom from home-produced exports plus its net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936-8, fixed at £866 million, as such figure may be adjusted for changes in the price level of these imports. Any amount in excess of £43,750,000 released or paid in any year on account of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks before the effective date of this Agreement shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

6. Relation of this line of credit to other obligations.

(i) It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the effective date of this Agreement will be found from resources other than this line of credit.

(ii) The Government of the United Kingdom will not arrange any long-term loans from governments within the British Commonwealth after December 6, 1945, and before the end of 1951 on terms more favorable to the lender than the terms of this line of credit.

(iii) Waiver of interest will not be requested or allowed under Section 5 in any year unless the aggregate of the releases or payments in that year of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks (except in the case of colonial dependencies) before the effective date of this Agreement is reduced proportionately, and unless interest payments due in that year on loans referred to in (ii) above are waived. The proportionate reduction of the releases or payments of sterling balances shall be calculated in relation to the aggregate released and paid in the most recent year in which waiver of interest was not requested.

" (iv) The application of the principles set forth in this section shall be the subject of full consultation between the two governments as occasion may arise.

Mr. Dwight Mallon

66a
b.b.a.
July 8, 1948

Drew Dudley

Relationship Between World Bank and ECA

Mr. McCloy would like to have us develop for him to send on to Mr. Finletter, in London, the relationship between the World Bank and the ECA. I would appreciate it if you would make a start on a narrative style memorandum, using whatever background we have available -- perhaps Mr. McCloy's speech at Mount Holyoke is the latest point of reference. Possibly this could be developed into a small question-and-answer pamphlet. It also might require a little research at ECA which I would be glad to help you with.

Drew Dudley

Mr. Iliff.

July 6, 1948.

Walter Hill.

Bank's Role in Marshall Europe and its Relation to ECA

1. Objectives of IBRD lending in Marshall Europe:

- (a) Within general investment programs;
- (b) For marginal purposes.

2. Conditions of Lending:

- (a) Bank loans should be "additional" to ECA loans and should not merely replace ECA loans;
- (b) The combined volume of lending by ECA and IBRD should not be beyond the capacity of repayment of borrowing countries as estimated jointly by ECA and IBRD. ECA interest rates and terms of repayment should be as lenient as possible, especially as some ERP countries are already heavily indebted to the United States. "Blind" lending by ECA would make it difficult for the Bank to grant loans to some countries.
- (c) It would be desirable to draw a distinction, in the minds of borrowers, between loans made by ECA and IBRD or, more precisely, to prevent IBRD loans from being treated like U.S. Government loans if the service of both can no longer be maintained. How far, if at all, can this distinction be made implicit (it can hardly be made explicit) (a) in our loan and guarantee agreements, (b) in our provisions for supervision and (c) in other ways?

3. What is the order of magnitude of possible Bank lending in Marshall Europe during the first and successive years?

Mr. D. Crena de Iough

June 30, 1948

H. Robert Slusser

Local currency provisions of the bilateral agreements under the
European Recovery Program

Texts are now available of the bilateral agreements to be concluded between the United States and each of the countries participating in the European Recovery Program. They include articles on local currency and also on the guaranty by the United States Government of the conversion into dollars of return on investments in the participating country which are owned by United States nationals.

Local Currency derived from Grants

The provisions concerning local currency counterparts of grants under the Program may be summarized as follows:

- 1) The amount is determined, not from the amount realized by the recipient government when it disposes of the grant commodities, but from the cost in dollars (including storage, processing, transportation, etc.) as stated by the United States government. This should minimize any inclination of the recipient governments to give away the commodities for political or other purposes.
- 2) Par value of the local currency, as agreed with the International Monetary Fund at the time of each deposit, will be the basis for determining the countervalue. Where no such par value exists, the rate will be agreed between the two governments.
- 3) Of the local currency set aside under these provisions, 5% is apparently free of any restriction by the European government concerned. Congress intended that this 5% was to be used for administrative expenses of the Program and for stockpiling, but the bilateral agreements do not name any specific uses for it.
- 4) The remaining 95% of the deposits will be employed for uses agreed between the United States Government and the European government concerned. Generally, these uses are to be either development programs or retirement of the national debt. It is interesting that the acceptable development projects include specifically those covered by loans from the International Bank for Reconstruction and Development.
- 5) The language of the agreements implies that the European government will take the initiative in proposing uses for these funds, but nothing in the agreements prevents the United States government from making such proposals.

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- 6) The date for final disposition of the funds is surprisingly early. The program is to end on June 30, 1952, but since commodities will continue to arrive in Europe for some time, the bilateral agreements expire on June 30, 1953. However, it is the balance of the local currency account at June 30, 1952 that is to be the subject of agreement and final disposition by the two governments concerned.

Transfer Guaranty

The arrangements concerning guaranty of transfer of investments by United States nationals are entirely separate from the local currency provisions. The European government will have a voice in choosing the projects that are to enjoy the guaranty, but the local currency against which the United States government provides dollars for this purpose becomes the property of the United States government. This provision does not terminate with the disposition of local currencies arising from grants, nor even with the expiration of the bilateral agreement. The amounts involved are unimportant, however, being only \$10,000,000 for all countries together.

cc: Mr. Henry W. Riley
Mr. S. Aldewereld

HRS/ga

Reconstruction

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

June 29, 1948

ADVISORY COUNCIL NOTE NO. 1

POSSIBLE NATURE AND EXTENT OF LOANS BY THE BANK TO
COUNTRIES PARTICIPATING IN THE EUROPEAN RECOVERY
PROGRAM

The original conception of the International Bank's function, as formulated at the Bretton Woods Conference in the summer of 1944, was that the Bank should be the principal instrument for assisting in the international financing required for post-war reconstruction. The critical short-range relief needs were to be met through donations by UNRRA; the external financing needed for more permanent recovery programs, to the extent that it could not be furnished from other sources, was to be supplied by loans from the Bank. Recovery was conceived of primarily in terms of the rebuilding of factories, mines, railroads and other specific productive facilities.

It was not until the winter of 1946-47, that the Bank was organized to the point that it could seriously consider its first loans for European reconstruction. By that time, it had become clear that the physical devastation, disruption of trade and industrial and governmental dislocations caused by the war were far greater than had been envisaged at Bretton Woods. The economic problems with which the European nations were confronted at the end of the UNRRA period involved much more than the reconstruction or modernization of specific productive facilities; there was also urgent need for assistance to prevent interruption of the flow of imports, primarily of food, fuel and raw materials.

This was the situation when the first loan applications were filed with the Bank by its European members, requesting financing for imports of specific agricultural and industrial goods. It was fairly obvious, in the light of the circumstances, that the essential purpose of the loans requested was not so much to reconstruct specific facilities as to help bridge the estimated gap in the general balance of payments of the applicant countries for the year 1947. Moreover, it was also fairly obvious that the loanable funds available to the Bank would not be sufficient to meet in full all the justifiable demands of that kind which might be expected to be made upon the Bank. Despite the difficulties presented by this situation, the Bank decided to grant loans to France, Denmark, the Netherlands and Luxembourg. These loans, all made in the spring and summer of 1947, aggregated \$497,000,000. They have served the essential purpose of helping to keep European recovery moving forward until additional assistance was forthcoming from the United States, first under the Interim Aid Act and subsequently through the European Recovery Program.

The enactment of ERP has removed the pressure on the Bank for further general loans of this character. The Economic Cooperation Administration (ECA), established to implement ERP, will now be the major source to which the participating countries will look for the external financing required for maintenance of their essential imports. This still leaves the question of the extent and manner in which the Bank can and should contribute to the recovery of the participating countries. No definitive answer can, of course, be given to this question at the present early stage of ERP, but it is possible to outline some of the considerations which appear relevant to the formulation of the Bank's eventual policy.

It seems clear that Bank loans to any of the participating countries should normally be granted for the purpose of financing specific projects;

specific project loans are considered to include any loan the proceeds of which are available for use only for defined productive purposes. The post-war recovery of the ERP countries to date has been made possible largely because of the high proportion of national income (from 14 to 20 per cent) which those countries have been enabled and been willing to devote to investment; it is important that this rate of investment should not be substantially reduced during the ERP period in order that, at the end of that period, the participating countries may have a productive plant of sufficient capacity and efficiency to enable them to support a tolerable standard of living without abnormal external aid. The first claim on ERP funds will necessarily be for those imports essential to maintain the existing economy; the ERP funds remaining after these claims have been satisfied may not be entirely sufficient to enable the participating countries to maintain the required rate of investment. It is in the investment field, therefore, that there would appear to be the greatest need for Bank assistance, and also the greatest opportunity for the Bank to make a constructive contribution. For this reason, the Bank should seek to finance projects which involve a permanent addition to the productive capacity of the country or countries concerned, and would be particularly interested in those which will benefit more than one of the participating countries and generally promote international trade.*

It is, of course, true that, because all the participating countries which are likely to apply to the Bank for loans during the ERP period have been forced, by reason of their large balance of payments deficits, to limit their imports to those falling within an over-all import program, it is not

* The extent to which this may be feasible may depend upon the nature of the ECA lending policy.

important, from a purely economic standpoint, which of the goods within such program are financed with the proceeds of a loan from the Bank. However, by stressing specific productive projects as the most appropriate subject for Bank loans to the countries participating in ERP, the Bank will be following the general pattern of lending which seems most suitable for its operations in other areas and which will probably also be most suitable for its operations in the participating countries themselves after they have once more become self-supporting. Any other course adopted by the Bank with respect to loans to the participating countries during the ERP period might tend to create an embarrassing precedent.

It would also appear desirable that such capital projects as the Bank does finance in the participating countries should, to the extent possible, be part of an integrated investment program drawn up by such countries for purposes of ERP. It is quite generally agreed that ERP can succeed only if there is a substantial readjustment of the Western European economies as a whole, in the sense of a general coordination of their over-all investment and production programs, a corresponding coordination of their import programs, and the adoption of measures to stimulate trade between them. This was explicitly recognized in the initial report of the Committee for European Economic Cooperation, which formed the basis of ERP, and in the United States legislation which authorized American support for the program. If such a readjustment is to be achieved, it means that, within a reasonable period of time, the participating countries, acting through the OEEC and with the approval of the ECA, must develop at least the general outlines of an integrated plan for the expansion and modernization of their productive facilities, emphasizing the more essential projects and reconciling, on as objective and as rational a basis as possible, the frequently competing national plans of the several governments. It means, too, coordinated programming of the imports necessary to carry out the investment program.

In view of this situation, it seems clear that the Bank should not finance projects that are inconsistent with any over-all investment program which has been or is in the process of being formulated for purposes of ERP and should, therefore, consult with the OEEC and ECA with respect to proposed Bank loans to any of the participating countries (except for the relatively few small loans now in process of active negotiation) in order to avoid such inconsistency. Equally the Bank must keep itself continually informed with respect to the activities and policies of the OEEC and ECA, particularly in connection with loans proposed to be made out of ERP funds.

It does not seem feasible at the present time to make even an estimate of the amount of loans the Bank can and should make to the participating countries, either during the first year or over the entire period of ERP. Any such estimates would involve too many imponderables, such as the amount of its own bonds which the Bank may be able to sell in the market and the timing of such sales, the amount of the other justifiable claims which may be made upon the Bank's resources, the pace of European recovery, etc. It is clear, however, that, at least to the extent that ERP funds are made available in the form of grants rather than loans, ERP will facilitate rather than impede Bank financing to the participating countries, for such grants should serve to improve the economic position of the recipient nations to a point where loans by the Bank will not only be a better risk, but will be more likely to serve their intended purpose of making a lasting contribution towards increasing Europe's productive capacity.

E. G. Burland
Iceland?

CONFIDENTIAL OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE FILES

DATE: June 22, 1948

FROM: E. G. Burland *EGB***DECLASSIFIED**

SUBJECT: \$600,000 Loan to Iceland by E.C.A.

APR 01 2022

WBG ARCHIVES

I learned today from Exim Bank that the loan above referred to, while not signed, has been agreed upon as to terms. The proposal had been before Exim Bank prior to the formation of E.C.A.

The loan will bear interest at $3\frac{1}{2}\%$, is repayable in 14 equal semi-annual installments, beginning at the end of the third year, which makes a $9\frac{1}{2}$ - or 10-year loan. It is a direct obligation of Iceland, and has no specific security. The purpose of the loan is to produce fish oil and derivatives, and the list of goods, which is in broad terms, includes one so-called factory ship and certain processing machinery.

In addition to the usual safeguards, such as the supervision performed by Exim Bank examiners, the E.C.A. Administrator reserves the right to participate in the supervision. The proceeds of the loan may be used as a revolving fund or to reimburse letters of credit opened by private banks - such letters, however, will disclose the individual user of the goods in addition to the name of the seller.

EGB:eh

CC: Mr. Iliff

File - CRP
Reconstruct,
R - 174
Revision I *ECA.*

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

June 18, 1948

FROM: THE SECRETARY

Attached draft Advisory Council Notes No. 1, 2 and 5, revised in the light of discussion at the Financial Policy Committee will be considered by the Executive Directors at their meeting on June 29.

Distribution

Executive Directors and Alternates
President
Department Heads
Assistant to the Vice President

x Loan Policy

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Policy ECA

Letter No. H/175/107

S. JOHAN VAN OLDENBARNEVELTLAAN
THE HAGUE - HOLLAND
TEL. 552008, 552393, 552394.

16 June 1948
AT/MBL.

Mr. S. Aldewereld
International Bank for
Reconstruction and Development
1818 H Street N.W.
WASHINGTON 25 D.C.
U.S.A.

Dear Mr. Aldewereld,

Many thanks for your letter No. H/197 of the 1st inst.
containing the very interesting news of your discussions with the
Economic Cooperation Administration regarding liaison and
cooperation between themselves and the Bank.

I shall look forward to hearing from you further in due
course on this matter and needless to say that we shall only
be too happy to render all possible assistance in these matters
on the lines to be indicated by you.

With kindest regards,

Sincerely yours,

A. de Tchihatchef

A. de Tchihatchef

WMA

FROM - 1. Office of the President

2. Office of the Vice President

Date 6/9/48

TO-	Name	Room No.
1	Mr. Cressa de Lough	1201
2	Mr. Alderfeld	207
3	Mr. Riley	
4	McT	

FOR-

	Action	Initialing
	Approval	Preparing Reply
	Comment	Previous Papers
4	Filing	Noting and Returning
	Full Report	Recommendation
	Information	Signature

REMARKS

R.D.D. 5/6/48

MWP

ECH

Mr. McCloy

June 9, 1948

Mr. Demuth

I had luncheon today with Mr. Tyler Wood, Assistant to the Deputy Administrator of ECA, to discuss liaison arrangements between the Bank and ECA.

Mr. Wood stated that he was in accord with the Bank's position that regular liaison arrangements should be made so as to assure that both organizations have the information available to each and that they follow consistent approaches to the European reconstruction effort. He stated, however, that he believed it was still too early for such arrangements to be established. All the decisions of ECA thus far have been made on an ad hoc basis and no real pattern of operations has been formulated or indeed is yet in the process of being formulated. Many of the men in pivotal positions are simply on a temporary basis; for example, the man in charge of analyzing programs submitted by the ERP countries, through OEEC, for the next quarter is Lincoln Gordon, who is on loan to ECA simply for a five-week period. The general impression I received from Mr. Wood is that all the key persons in ECA are so far over their heads in work that, unless a specific problem arises on which consultation is required, they would much prefer to defer for a month or so inauguration of regular meetings with the Bank.

ECA has just received from the OEEC the first import programs. These are now in the process of being reproduced and Mr. Wood has made arrangements to see that we receive copies of the programs within the next few days. He suggested that we should analyze the programs and that, if such analysis should indicate any matters on which consultation is desirable, we should arrange it through him. Mr. Wood further confirmed that we were likely to get our best information with respect to proposed capital projects in Paris and, in his opinion, it would be very helpful to the Bank to establish a liaison office in Paris.

R. H. D.

RHD:bd

CC: Mr. C. A. McLain
Mr. Creta de Iongh 1201
Mr. Walter Hill
Dr. Rosenstein-Rodan

June 17, 1948

Dear Mr. Bruce:

For your information I enclose a copy of the memorandum which I am sending to Mr. Hoffman today.

Sincerely,

Howard Bruce, Deputy Administrator
Economic Cooperation Administration
800 Connecticut Avenue, N.W.
Washington, D. C.

ECA

Enc.

JJM:mel

ECA

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 6, D. C.

June 17, 1948

MEMORANDUM FOR MR. HOFFMAN

As you perhaps know, the Bank has been at an impasse for over six months in connection with its negotiations with Poland for a loan.

We endeavored to set up a loan primarily for coal equipment repayable over a period of from 5 to 7 years, the loan agreement to provide for the shipment of certain amounts of coal by Poland to the West. Due to the tension in East and West relations and the increase in war potential which the introduction of coal machinery would produce in the East, it was apparent that approval of such a loan by the Board of Directors of the International Bank could probably not be obtained. More recently a suggestion has been made that trade between the East and West could be encouraged as long as there was a relatively close connection between shipments in and shipments out of the "iron-curtain" countries.

With a desire to use the services of the Bank to the extent practicable in the encouragement of East-West trade and still to comport with the United States policy as I understand it presently to be, I wonder whether it might not be possible for the Bank to give a short-term credit to Poland to be repaid by deliveries of Polish coal to be taken up by ECA for the benefit of ERP countries. I feel certain that Polish coal could be purchased at reasonable prices which would amount to a considerable saving over purchases in this country. I also feel that there is an advantage to be gained politically as well as economically if a contact between the International Bank and Poland could be arranged on somewhat these terms. I believe the matter is well worth exploring and I suggest that you have some thought given to it.

We have already made some informal contacts with State Department officials and I intend to speak to Lovett about it, but if you are interested in the matter and could stimulate consideration of it in the ECA, I would be prepared to give it serious thought here.

If it were suggested that such a short-term revolving credit as we have in mind, repayable out of ECA purchases, might be done privately, I have, in the first place, some doubts that private banking sources would be willing to do it and, secondly, even if they were interested we could, under our charter, pass some of the paper on to them perhaps with our guarantee.

I am sending a copy of this memorandum to Howard Bruce as I have already talked to him a little bit about it.

J. F. M.

NOTES ON MEETINGS BETWEEN OFFICIALS OF
ECONOMIC COOPERATION ADMINISTRATION AND
REPRESENTATIVES OF THE INTERNATIONAL
BANK FOR RECONSTRUCTION AND DEVELOPMENT

Those present:

On the part of ECA:

Mr. Howard Bruce, Deputy Administrator
Mr. Richard M. Bissell, Jr., Assistant Deputy Administrator
Mr. E. L. Kehler, Comptroller
Mr. Clark Simpson, Assistant Comptroller
Mr. M. W. Reinhardt, Consultant
Mr. A. I. Henderson, General Counsel
Mr. Milton Katz, Counsel to Mr. Harrison
Mr. D. E. Austen

On the part of the International Bank:

Mr. D. Crens de Iongh, Treasurer
Mr. S. Aldewereld, Assistant to the Treasurer and
Chief of Fiscal Operations - Loans Division
Mr. Royall Tyler, Treasurer's Department Representative in Paris
Mr. Hugh Ripman, Chief, End-Use Section of Fiscal Operations
- Loans Division
Mr. Gordon M. Street, Assistant

A general outline of the disbursement procedure of the International Bank was explained to representatives of the ECA and examples of forms used by the International Bank were submitted to them. As it had been learned by the Bank representatives that the provisions of the laws in the United States relative to government agencies preclude ECA from adopting the International Bank's disbursement procedure as far as documentary letters of credit are concerned, the discussions were limited in later meetings to end-use supervision.

The procedure by which the International Bank carries out the end-use supervision task was explained and illustrated by examples of actual reports and forms used. It was explained that a voucher for each disbursement is sent to the field offices with a key reference based upon the borrower's system of control and that a report is subsequently received from the field offices regarding each voucher. It was mentioned that for any items found to be unsatisfactory, reimbursement is requested from the borrower. On the basis of the reports received from the field office a summary report is prepared at headquarters in Washington twice a month. This report gives an indication of the status of the end-use supervision in the various borrower countries to date.

It was emphasized that in order to key the items into the borrower's control system such system had to be examined by Bank officials prior to the time the supervision commenced, studies had to be made and the procedure had to be set up as a result of these studies. Since the control systems vary between countries and between categories of supply within a given country, this initial study is extremely important. It was explained that the Bank employs a relatively small staff to supervise the use to which Bank financed goods are put but that the number of personnel required to do such a job depends upon the number of items involved which have to be individually checked, the type of commodity and the time limit within which the supervision must be completed. Conditions vary greatly between categories of supply and between countries. It was pointed out that since ECA has a larger job than the Bank due to the larger amounts involved and since it is likely that it must complete its job within a relatively short time, the ECA might consider some method of end-use supervision whereby some or all of the detailed work of supervision is performed by OMS working under the direction of ECA officials.

In connection with an inquiry as to any bad spots encountered by the Bank, it was explained that effective supervision of petroleum products in France had not been possible due to the existence of the substantial black market, the inefficiency of the French Government control of petroleum products and the physical impossibility of directly supervising the very large number of end-users. It was emphasized to the ECA representatives that in spite of all action they might take, a percentage of goods they financed was bound to find its way into the black market and that in order to avoid later adverse criticism it would be best to make this point clear to their potential critics from the outset.

Furthermore, it was explained to the ECA representatives that the Bank has had no experience in connection with the supervision of some of the products which ECA is likely to make available, namely, wheat and other consumer goods, and it was brought to their attention that the Bank has acquired experience in France, the Netherlands and Denmark only. Though the basic problem confronting the Bank in these countries has proved to be identical and the systems of internal controls there, though different in outward appearance, are identical in substance, the Bank could not guarantee that the system developed by it would work in countries to which it has not granted loans to date.

It was emphasized that since ECA is financing a marginal part of a country's availabilities the financing of goods considered eligible by ECA will in effect release dollars available to the borrower from other sources for purposes which may not be considered eligible. Therefore, it is most important that they carry out not only end-use supervision of the goods financed but that they watch, in addition, the general picture of the financial

and economic policy of the borrower's country.

It was pointed out in conclusion that the Bank and ECA, while having problems that may differ in some respects, are engaged in operations which are essentially similar and that the supervision policies adopted by one may well affect the work of the other. For this reason cooperation between the two is important, and the Bank is anxious not only to furnish ECA with all the information they may require but also to learn from their experience. In this connection it was made clear that the ECA officials are welcome to avail themselves of any assistance which can be given by the Treasurer's Department field offices whenever the need should arise and that, of course, the Bank's Headquarters will always be at ECA's disposal. The ECA officials were in complete agreement as to the need for the closest possible liaison.

SA/lms
June 7, 1948

cc: Messrs. McCloy
Demuth
Somers
Ryman
Patterson

(To Mr. Paul Hoffman, Administrator, ECA, from Mr. McCloy)

Dear Mr. Hoffman:

I have learned with great interest and pleasure that discussions between officials of your organization and members of the staff of the Bank have commenced concerning the procedures which the Bank has developed in connection with the disbursement of the proceeds of loans granted and the supervision of the use to which Bank financed goods have been put.

I should like to take the opportunity of expressing to you personally my appreciation that officials of your organization have consulted the Bank in this connection and I wish to state that we here in the Bank, both at headquarters in Washington and in our field offices, are entirely at the disposal of your organization in any way which may be helpful.

For your information I am enclosing a brief memorandum on the discussions which have taken place to date on this subject. I wish to express my belief that since ECA and the Bank are in effect partners in the same act, a continuing cooperation between our two organizations will be of mutual benefit. While ECA, profiting from the experience the Bank has acquired, will be able to avoid errors which the Bank may have committed when it commenced its supervision task without previous experience, I am sure that on the other hand, as the work of ECA progresses, experience will be gained from which the Bank may receive valuable assistance in carrying out its task.

In this connection I should like to suggest that arrangements be initiated to establish a permanent liaison body between the staffs of the ECA and the Bank on a working level which might meet at fairly regular intervals, thus providing a forum for the continuing interchange of information and

views on questions of mutual interest. If you agree with my proposal, perhaps you would be kind enough to designate those persons who will represent NCA in such a group and I shall be glad to do the same for the Bank.

Looking forward to your reply, I remain

Very truly yours,

John J. McCloy
President

SA/lms

ROUTING SLIPDate July 6

TO-		Name	Room No.
1		Mr. Crena de Tongh	1201
2			
3			
4			

FOR-			
	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

The attached memorandum is circulated in connection with the meeting to be held at 4 p.m. this afternoon on relations with ECA.

FROM- WALTER HILL

ECA

TO: W.A.B. Iliff.

DATE: June 7, 1948.

FROM: J. RUCINSKI

SUBJECT: Economic Cooperation Administration -

Referring to the conversation which you had with Messrs. Schmidt, Penton and myself regarding problems arising out of the aid to be given by the United States Government to sixteen European countries in the form of grants and loans, I submit for your consideration the following suggested procedure:

1. Member countries which have borrowed money from the IBRD should be asked -

- (a) to notify the IBRD about the intended negotiations for loans to be granted by the American Governmental agencies;
- (b) to keep the IBRD informed of the progress of the negotiations.

This can be done on the strength of Article VII, Section 2, of the Loan Agreements (in the case of the loan to the Credit National, on the strength of the letter of the Minister of Finance dated May 9, 1947).

N.B. Denmark has already complied with the provisions of Article VII, Section 2, of the Loan Agreement and notified the IBRD on June 3, 1948, about the beginning of the discussions with the ECA.

2. Member countries which have applied or are applying for loans from the IBRD should be asked to transmit to the IBRD all data submitted to the ECA regarding their needs, and to keep the IBRD informed about the progress of the negotiations with the ECA.

3. A joint ECA-IBRD estimate should be made of the maximum amount of dollar debt which ERP countries will be able to safely carry as of the end of ERP. This estimate should be made in order to make sure that loans in excess of this maximum are not made during the ERP and to safeguard IBRD loans already made to ERP countries.

In order to accomplish (3) it would be advisable to establish a contact at the working level with the IBRD and the ECA.

In the course of preliminary discussions with some of the IBRD's prospective borrowers, problems have arisen which also require

June 7, 1948.

direct contact at the working level between the negotiators of the loan and their opposite numbers in the ECA. In view of this, it would seem opportune to appoint at the appropriate time one of the IBRD's Loan Officers as liaison between the Loan Department of the IBRD and the Finance Division (Loan Section) of the ECA.

OFFICE MEMORANDUM

TO: Mr. John J. McCloy, President

DATE: June 7, 1948

FROM: D. Crena de Iongh, Treasurer

SUBJECT: Cooperation Between the Bank and ECA

As you know, representatives of the Treasurer's Department have met with officials of the Economic Cooperation Administration for the purpose of furnishing the latter with information regarding the Bank's procedure for supervision of disbursements and of the use to which Bank financed supplies are put. A few meetings have taken place. I have called upon Mr. Howard Bruce and Mr. Bissell, accompanied by Mr. Aldewereld, and Mr. Austen visited the Bank on May 11. More recently the Comptroller of ECA and two of his assistants visited our office and discussed the problems in some detail, and on June 1 Messrs. Henderson and Katz of ECA met with Messrs. McLain, Luxford, Demuth, Aldewereld and myself. For your information I attach a copy of notes on these meetings.

I believe that our contacts to date have been of value to the Economic Cooperation Administration and the officials of that organization have been very definite in expressing their opinion that the information given by us was valuable and that they intended to apply the Bank's principles as regards supervision of end-use whenever it would prove practicable.

As far as the possibility of applying the Bank's disbursement procedure in connection with documentary letters of credit is concerned, I understand that as a result of existing United States Government regulations it would not be possible for ECA to do so, though officials of that organization expressed as their opinion that the Bank's disbursement procedure is more practical than the procedure which ECA must apply.

It is my belief that cooperation between the Bank and ECA will be of benefit to both agencies because it will mean the sharing of information and experience. Also, cooperation will afford us an opportunity to observe the practices and policies of ECA. I mention this because I believe that the policies of the one organization cannot be without their effect on those of the other. If the policies of ECA with regard to end-use supervision should prove to differ in principle from those of the Bank in similar circumstances, serious difficulties might be encountered.

It has occurred to me that it may be desirable to communicate the Bank's point of view to Mr. Hoffman and, therefore, I have prepared the attached draft letter which I would be pleased to discuss with you whenever you deem fit.

SA/GS/lms

cc: Mr. Demuth
Mr. Sommers
Mr. Ripman
Mr. Patterson

OFFICE MEMORANDUM

JUN 4 REC'D

TO: Mr. John J. McCloy

FROM: J. W. Beyen

SUBJECT: Financial Policy Committee

DATE: June 4, 1948.

This note is not meant to be a complaint on a matter on which the right decision was taken in the meeting of June 3rd. But I feel a little grieved by Mr. Iliff's attitude and it is therefore that I think it is desirable to recall what has happened in this connection.

Sometime in March you and I agreed that it was desirable that certain aspects of loan policy should be discussed in the Financial Policy Committee, more especially the problem of so-called specific projects loans. In agreement with you I discussed the matter with Mr. Iliff who asked me to write a note on the matter. So I did and I showed the draft of my note to Mr. Iliff before sending it to you. Mr. Iliff and I agreed on the text of the note which I send to you on March 16, 1948. If I remember well you had no objection against the Financial Policy Committee discussing the note right away but I suggested that it would be better to give the Staff the opportunity to produce a memorandum to be circulated to the Financial Policy Committee, before it started the discussion. I had hoped that this memorandum would have been available in time to allow me to call a meeting of the Committee before my departure to Europe. This appeared to be impossible and it was understood that the matter should be ready for discussion by the Committee immediately after my return.

Telling the Board that there are twenty subjects to be discussed with the Committee and that the Staff is considering the priority to be given to some subjects over others is not only based on a wrong conception of the relative position of Board and Staff (as was decided on June 3rd) It also shows a complete lack of appreciation for the courtesy I intended to show to Mr. Iliff in dealing with this matter as I did. In my opinion the Board and the Committees of the Board should avoid either infringing the prerogatives of the President or disturbing the work of the Staff. This has always been fully appreciated by you. But the Staff should avoid penalising this attitude by not reciprocating it from their side.

I am sorry to bother you with this matter. I would have liked to make my point to Mr. Iliff myself. But I think that would be wrong unless you would agree to me doing so.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

WU G31

Date of Wire **MAY 19, 1948**

To **INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.**

From **PARIS**

TEXT: **FOR RIST
STAYING TEMPORARILY AT CRILLON USE EMBASSY ADDRESS.
FINANCIAL EXPORTS MEETINGS SCHEDULED 25 MAY WILL
ADVISE WHEN CONSIDER BANK OBSERVER APPROPRIATE.**

ROSEN

May 19TH

ROUTING:

ACTION copy to MR. RIST

INFORMATION copy to

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MAY 19 1 38 PM 1948

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INTERNATIONAL BANK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

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Date of Wire MAY 19, 1948

To INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.

From PARIS

TEXT: FOR RIST

ADVISE WHEN CONSIDER BANK OBSERVER APPROPRIATE.
FINANCIAL EXPORTS MEETINGS SCHEDULED 25 MAY WILL
STAYING TEMPORARILY AT CRILLON USE EMBASSY ADDRESS.

ROSEN

MAY 19TH

ROUTING:

ACTION copy to MR. RIST

INFORMATION copy to

Decoded by

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MAY 19 1 28 PM 1948

INTERNATIONAL BANK
DUPLICATE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: May 13, 1948

To: ~~M.~~ Arthur Marget
Harriman Mission
American Embassy
Paris, France

CLASS OF SERVICE DESIRED			
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FULL RATE	<input type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input checked="" type="checkbox"/>

TEXT:

ARRIVING TWA FLIGHT 976 PARIS TIME 5:10 ~~PM~~ MONDAY AFTERNOON STOP PRESUME
EMBASSY MAKING ARRANGEMENTS HOTEL TRANSPORTATION FROM AIRPORT STOP UNDERSTAND
HAGUE MEETING POSTPONED ~~SEE~~

ROSEN

Martin Rosen
AUTHORIZED BY: Martin Rosen

NAME Martin M. Rosen

DEPT. Economic

INTL DEVELOPMENT
FOR RECONSTRUCTION

MAY 13 15 22 PM 1948

INTERNATIONAL BANK

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CLEARED BY:

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INTERNATIONAL BANK

INTERNATIONAL BANK

163

DEPT: *Personnel*

NAME: *Walter H. Rosen*

MAY 13 12 55 PM 1948

AUTHORIZED BY: *Walter H. Rosen*

FOR RECONSTRUCTION
AND DEVELOPMENT

CLASSIFIED BY:

ROSEN

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TEXT:

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To:

Date:

Handwritten date: May 13, 1948

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CLASS OF SERVICE DESIRED			

INTERNATIONAL BANK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Handwritten notes at the bottom right corner.

Reconstruction
ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON

May 5, 1948

Mr. Walter Hill
Assistant Loan Director
International Bank for
Reconstruction & Development
Washington 6, D. C.

Dear Mr. Hill:

Thank you for yours of May 4, 1948, enclosing
a copy of the brochure entitled, "Benelux an Example of Unity
in a Divided World."

I have read same and am returning it with our
thanks.

Sincerely yours,



David M. Crawford

Enclosure

Pall

OFFICE MEMORANDUM

TO: Mr. Richard H. Demuth

DATE: April 26, 1948

FROM: Leonard B. Rist

SUBJECT: Use of local currencies under the Marshall Plan.-

It is in the interest both of the Administrator and of the recipient country that the bilateral agreements should not spell out the destined use of local currencies further than the law itself, the text of which is under Annex I, since:

- a) the use of the currency should be as flexible as possible and may change according to countries and according to changing situation, in individual countries;
- b) the agreements cannot be any more flexible than the law itself;
- c) the text of the law spells out in excellent terms for what purposes the special accounts might be used.

For your information I attach the corresponding provisions of the Post-Unrra Aid Act of 1947 (Relief Assistance to war devastated countries - \$350,000,000 - Public Law 84/80) as well as the relevant excerpts from the bilateral agreement entered into in November 1947 with Italy (Annexes II A and II B).

Also attached are the provisions of the Interim Aid Act (Foreign Aid Act of 1947 - Public Law 389/80) and the relevant excerpts from the bilateral agreement entered into on January 2nd with France (Annexes III A and III B).

This last document may set an interesting pattern in that the original law is not spelled out in the agreement, but reference is only made to it in a manner which aims at avoiding embarrassment when the document is published in the recipient country.

My recommendation would be that the bilateral agreement should either follow closely the text of the law, or refer to it in the same manner as in the French Agreement.

L. Rist

Attachments

FOREIGN ASSISTANCE ACT OF 1948

April 1, 1948

TITLE I

BILATERAL AND MULTILATERAL UNDERTAKINGS

Sec. 115

(b).....Such agreement shall provide for the adherence of such country to the purposes of this title and shall, where applicable, make appropriate provision, among others, for.....

- (6) placing in a special account a deposit in the currency of such country, in commensurate amounts and under such terms and conditions as may be agreed to between such country and the Government of the United States, when any commodity or service is made available through any means authorized under this title, and is furnished to the participating country on a grant basis. Such special account, together with the unencumbered portions of any deposits which may have been made by such country pursuant to section 6 of the joint resolution providing for relief assistance to the people of countries devastated by war (Public Law 84, Eightieth Congress) and section 5(b) of the Foreign Aid Act of 1947 (Public Law 389, Eightieth Congress), shall be held or used within such country for such purposes as may be agreed to between such country and the Administrator in consultation with the National Advisory Council on International Monetary and Financial Problems, and the Public Advisory Board provided for in section 107 (a) for purposes of internal monetary and financial stabilization, for the stimulation of productive activity and the exploration for and development of new sources of wealth, or for such other expenditures as may be consistent with the purposes of this title, including local currency administrative expenditures of the United States incident to operations under this title, and under agreement that any unencumbered balance remaining in such account on June 30, 1952, shall be disposed of within such country for such purposes as may, subject to approval by Act or joint resolution of the Congress, be agreed to between such country and the Government of the United States.....

PUBLIC LAW 84, 80th CONGRESS

(POST UNRRA AID)

Section 6:

"To the extent that relief supplies procured with funds authorized under this joint resolution are not furnished on terms of repayment in dollars, they shall be furnished only upon condition that the government of the receiving country agree that when it sells such relief supplies for local currency (a) the amounts of such local currency will be deposited by it in a special account; (b) such account will be used within such country, as a revolving fund, until June 30, 1948, only upon the approval of the duly authorized representative of the United States, for relief and work relief purposes, including local currency expenses of the United States incident to the furnishing of relief; and (c) any unencumbered balance remaining in such account on June 30, 1948, will be disposed of within such country for such purposes as the United States Government, pursuant to Act or joint resolution of the Congress, may determine."

PUBLIC LAW 84 - 80th Congress

(Foreign Relief Program)

Appendix K - Article III

Utilization of Funds Accruing from Sales of United States Supplies

(A) The prices at which the United States relief supplies will be sold in Italy shall be agreed upon between the Italian Government and the United States Government.

(B) When the United States relief supplies are sold for local currency, the amount of such local currency will be deposited by the Italian Government.

(C) Until June 30, 1948, such funds shall be disposed of only upon approval of the duly authorized representatives of the United States Government for relief and work relief purposes within Italy, including local currency expenses of the United States incident to the furnishing of relief. Any unencumbered balance remaining in such account on June 30, 1948, shall be disposed of within Italy for such purposes as the United States Government, pursuant to Act or joint resolution of Congress, may determine.

(D) The Italian Government will, upon request, advance funds to the United States representatives to meet local currency expenses incident to the furnishing of relief.

(E) While it is not intended that the funds accruing from sales of the United States relief supplies normally will be used to defray the local expenses of the Italian Government in handling and distributing the United States relief supplies, including local currency costs of discharging cargo and other port charges, the United States representatives will consider with the Italian Government the use of the funds to cover the unusual costs which would place an undue burden on the Italian Government.

(F) The Italian Government will each month make available to the United States representatives reports on collections, balances and expenditures from the fund.

(G) The Italian Government will assign officials to confer and plan with the United States representatives regarding the disposition of funds accruing from sales and to assure a prompt and proper use of such funds.

- - - - -

PUBLIC LAW 389 - 80th Congress

FOREIGN AID ACT of 1947 - (Interim Aid)

Sec. 5 - ... an agreement shall be entered into... between such country and the United States containing an undertaking by such country...

(b) to make, when any commodity which is not furnished on terms of repayment in dollars is made available under this Act, a commensurate deposit in the currency of such country in a special account under such general terms and conditions as may, in said agreement, be agreed to between such country and the Government of the United States, and to hold or use such special account for, and only for such purposes as may be agreed to between such country and the Government of the United States, and under agreement by the government of the receiving country that any unencumbered balance remaining in such account on June 30, 1948, will be disposed of within such country for such purposes as may, subject to approval by Act or joint resolution of the Congress, be agreed between such country and the Government of the United States.

TEXT of AGREEMENT between the UNITED STATES

of AMERICA and FRANCE

January 2, 1948

- - -

Article II.- The Government of the French Republic, having been fully informed as to the provisions of the Act, hereby affirms that it accepts and will perform the undertakings specified in Section 5 of the Act, as well as those provided for in Section 7 of the Act insofar as action by it may be required for implementation of such latter section.

ANNEX - Section I

1. In the case of any commodity made available pursuant to this Agreement or in the case of credits established under the Act being debited pursuant thereto in respect of the furnishing of any such commodity, the Government of the French Republic will, forthwith upon notification by the Government of the United States of America, deposit in a special account in the Banque de France in the name of Credit National an amount in French currency equivalent to the dollar amount stated in the notification. The amount so stated will be either the dollar cost in respect of such commodity (including storage, transportation, and shipping services related thereto) which is indicated as chargeable to appropriations under the Act, or the amount of the debit, as the case may be. The amount deposited in French currency will be computed at the rate of exchange in terms of United States dollars authorized under the Articles of Agreement of the International Monetary Fund, then applicable to imports of such commodity into France.
2. Any unencumbered balance remaining in such account on June 30, 1948, will be disposed of within France for such purpose as may hereafter be agreed between the two Governments, it being understood that the Agreement of the United States of America is subject to approval by Act or joint resolution of the Congress.
3. The provisions of this section shall remain in effect until superseded by a further agreement between the two governments.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. Thurnish -

you - ^{most disappointing}
Central Bank
Comm. bk -
private banks

Depends on degree
of inflation

This is for your information. I should
appreciate your comments.

to control banks
or, in some cases
privately held

A-3.

Short-term
Policy in most cases -
use for retirement
of debt
Keep in blocked account.
all in favor

~~in~~
Road subsidies
industry and for
In case case
we've been informed

April 23, 1948

LOCAL CURRENCY IN THE E.R.P. PROGRAM

Summary

Supplies provided by the E.R.P. assistance would automatically have anti-inflationary effects on the receiving countries--other things remaining unchanged. Such effects could be made stronger, even to the point of a severe deflation, if the recipient countries should decide to freeze the whole or a part of the proceeds in local currency, or to use them for repayment of government debts.

The anti-inflationary effects would vary from country to country according to the financial and economic situation of the recipient countries, to the total amount of aid in relation to the national income, the volume of money, and the rate of savings, and also according to the price policy followed by these countries.

No uniform policy with regard to the use of proceeds of E.R.P. aid in local currency can be recommended for all recipient countries. Any provision made in the agreement to be arranged between these countries and the E.R.P. Administrator with regard to the use of the proceeds in local currency should be flexible and be considered a part of the over-all financial and economic program which these countries are to adopt in accordance with the E.R.P.

Although the manner in which local currency proceeds would be used could play an important role in strategic situations, in general too much should not be expected of their effects on the respective economies.

1. Loans or grants would automatically have anti-inflationary effects on the economies of the receiving countries because the receiving countries would obtain additional goods without a corresponding increase of purchasing power. Such effects would be evident especially in countries which have already reached or are about to reach a balanced fiscal and monetary situation. However, the strength of this anti-inflationary effect will depend also upon other factors, notably the financial and economic situation and the price policy pursued by the recipient countries, the size of the local currency fund in relation to the supply of money, the national income and capital formation, and to the financial organization and habits of the country.

2. The monetary mechanism will be simple. The recipient government will receive local currency for the E.R.P. goods it sells, so that at first the value of money in circulation (currency and deposits), if other things remain equal, will be lower than if no E.R.P. aid had been given—as is the case with any import surplus paid for from monetary reserves or from foreign loans.

Some deflationary effect will result from the diversion of a part of the spending power (income flow) from the internal market to the imported goods, but this will be relatively small since the level of wages and salaries and the over-all cost structure will remain substantially unchanged. However the impact of this deflationary effect will depend on decisions on national monetary and financial policy.

3. The E.C.A. administration and the recipient governments must agree on what should be done with the proceeds in local currency. The following probable cases will be considered here:

(a) The governments would decide not to return into circulation the proceeds received, using them for repayment of debts with Central Banks or similar agencies or freezing them in a way similar to operations carried out in several European countries in recent years. Such a policy would have a clear deflationary objective. The effect of such a reduction in the supply of money would obviously vary from country to country according to the degree of the existing inflationary pressure and to the proportion of the amount withdrawn from circulation to the remaining money in circulation.

The reduction of the volume of money in circulation would operate mostly indirectly by reducing the liquidity of the banking system, thus making a further expansion more difficult. It would at the same time increase the efficiency of money market controls exercised by Central Banks, perhaps including the use of the instrument of the rate of interest.

(b) The governments would repay short-term government debts. In that way they would in most cases restore the balances of banks which were reduced as a result of purchases of the E.R.P. commodities; the credit institutions would, however, decrease their holdings of short-term government debts which usually can be monetized, so that the liquidity of the credit structure would be reduced.

(c) The governments would allocate a part of the proceeds for reconstruction or development work. In several cases a substantial part of reconstruction was financed by short-term loans which

obviously increased the inflationary pressure. In all countries in which the intended formation of capital is greater than the volume of voluntary savings, the amounts thus used would have the function of forced savings or a tax. The governments of the countries concerned could offer a good argument to their people for raising taxes in pointing out that a part of the expenditure is being covered by a contribution of the American people.

4. In view of different financial and economic situations of the recipient countries it is not possible to propose a uniform policy. The following three cases can be envisaged:

(a) Countries where there still is open inflation (for instance Greece). In such countries the use of local currency for the repayment of government debts with Central Banks is indicated, although it would be only a part of the general monetary and financial program.

(b) In countries which have already a balanced monetary and financial situation--say Sweden--the use of local currency for investment would be the most appropriate. A reduction in the volume of money could indirectly lead to a deflation which could easily upset the difficult stage of a balanced monetary and financial situation.

(c) In most cases the situation will be in between these two extremes (France, Italy). Although no severe inflation exists in these countries they are still exposed to an acute inflationary pressure. In such a situation a combination of all three indicated

uses of local currency proceeds should be recommended. That is, a part to be used for the repayment of the government debt with Central Banks, a part to be used for payment of short-term government debts, and finally, a part for reconstruction. These three uses must be combined according to the situation.

Summing up, if the budgetary and monetary situation of a country is already somewhat balanced the anti-inflationary effect of the E.R.P. assistance will be automatic. If, however, the financial and monetary situation of a receiving country is greatly out of balance, then even the E.R.P. assistance could only slightly mitigate the effects of a fundamentally unbalanced situation.

5. The whole policy must be flexible and closely coordinated with the general monetary and fiscal policy which the recipient countries will undertake in accordance with the E.R.P. Although it is important to provide for a sound economic policy with regard to local currency proceeds, the effect of any such policy should not be exaggerated, but should be seen in proper proportion to the major issues.

This memorandum is preliminary. A more thorough study requires an analysis of the monetary and financial situation in the recipient countries which was not possible within the short time left for this memorandum. In the future, the situation in these countries will currently be studied, especially also the question of the rate of the formation of savings as related to the E.R.P. assistance. The problem will become directly important to the Bank once loans to E.R.P. countries are considered in connection with the question of how to provide local currency.

The attached table showing the estimated size of local currency funds in the first year of E.R.P. operations compared to the supply of money gives some idea of the potential importance of the problem for the countries involved.

Local Currency Countervalue of ERP Aid During The
Period April 1, 1948/March 31, 1949 compared to
Supply of Money

	Estimated Aid in U.S. Dollars	Countervalue in local Currency	Supply of Money	
			Currency	Currency plus Deposit Money ^{4/}
	millions	millions	millions	millions
Austria	186	1,830	3,670 (Feb.48)	n.a.
Belgium-Luxembourg	296	12,967	83,600 (Feb.48)	155,200 (Sept.47) ^{2/}
Denmark	131	627	1,648 (Jan.48)	4,060 (Jan.48)
France	1,131	294,800	892,000 (Jan.48)	1,722,000 (Nov.47)
Greece	106	532,000	829,000 (Nov.47)	n.2.
Iceland	11	71	124 (Feb.48)	287 (Jan.48) (av. of 4th)
Ireland	114	28	49 (Jan.48)	238 (qtr. 1947)
Italy	704	403,160	738,800 (Jan.48)	1,286,200 (Sept.47)
Netherlands	600	1,595	3,045 (Feb.48)	7,436 (Nov.47) ^{2/}
Norway	33	163	1,929 (Jan.48)	6,104 (Jan.48) ^{3/}
Sweden	28	102	2,600 (Jan.48)	4,700 (Dec.47)
Turkey	10	28	870 (Feb.48)	1,521 (Sept.47)
United Kingdom	1,324	329	1,230 (Feb.48)	4,930 (Feb.48)

Note: Aid estimates for Belgium, France, Netherlands and the United Kingdom include aid to dependent territories.

- ^{1/} In addition to blocked deposits, b. frs. 55,700 million.
- ^{2/} In addition to blocked deposits, fl. 1,432 million.
- ^{3/} In addition to blocked deposits, n. kr. 144 million.
- ^{4/} According to IMF, International Financial Statistics. Time deposits are usually excluded.

Local Currency Utilization

(Draft for Hoffman letter)

Although it is obvious that conditions in the participating countries vary so widely that no one economic policy can be made applicable to all of them, there are certain general principles of policy which, I believe, are universally applicable and highly desirable.

The most important of these is that the utilization of the local currency proceeds of American grants must be fitted into the over-all monetary policy of the country concerned. Depositing local currency proceeds in blocked accounts is itself a deflationary force, since it reduces the volume of money in effective circulation in the country. It does not follow ~~at all~~, however, that the release of these funds would merely offset the deflationary effect, ~~and should, therefore, be permitted in all cases.~~ In ^{many} ~~some~~ of the participating countries there are simultaneously other forces in operation tending to increase the effective money supply as the result of bank credit ~~expansion~~, governmental deficits, investment programs greater than the volume of voluntary savings or other means. Under such circumstances, any additional expenditures financed by utilization of the local currency proceeds would, in fact, be inflationary and not merely contra-deflationary.

Another general principle which is, in my opinion, applicable is that utilization of local currency counter-value should proceed slowly during the initial period of ERP assistance. ^{Proposals may well be made for financing} ~~ambitious investment programs will not in~~ ^{many cases be advanced for financing} out of local currency funds. Obviously some countries will be in an economic position to undertake such investment programs much more quickly than others, but the initial impact of ERP assistance should, ^{I believe,} to the greatest practicable extent, be devoted towards the ~~rapid~~ restoration of monetary equilibrium and price stability. Any investment program necessarily means that factors of production are utilized in such a way as to increase future output at the expense of current output. Consequently, an ambitious investment

^a
~~the~~ program necessarily results in ^{the} higher price level ^{for consumer goods} than would exist
 if the national output were concentrated on immediately available goods. Of
 course, investment is required for the increased output essential for the economic
 recovery of Europe, but a ~~properly balanced~~ ^{an} investment program ^{properly balanced in terms} is essential in
 order to concentrate initially upon the problem of monetary and price stability
 rather than increased investment. ^{of the total productive capacity of the country}

I would like to add that, in purely financial terms, the effect of
 wiping out an amount of money equivalent to the local currency proceeds by repay-
 ment of debt held by the Central Bank is almost exactly the same as the effects
 of keeping ^{the} local currency proceeds in ^a blocked accounts. The latter method permits
 utilization of this amount for the financing of investment programs ~~f~~ or other
 desired purposes ~~at~~ a later date when monetary stability has been achieved and
 the problem of inflation is no longer pressing. Since the inflationary danger
 is not equal in all countries, it would be a ^{mistake} ~~must~~ to adopt a uniform requirement
 that all or a given percentage of local currency proceeds be used for repayment
 of Central Bank advances. There is another alternative which may be more desirable
 in countries where the inflationary pressure is not excessive. This policy is
 that of repayment of ~~privately held or bank held~~ government debt. Repayment of
 such debt makes available the funds required for the financing of private invest-
 ment needs. Thus, ^{private} ~~price~~ investment ~~investment~~ is possible and the United States,
 through its use of local currency proceeds, is not put in the position of making
 such funds available only to the governments of the participating countries for
 government-sponsored investment programs.

^{privately held or held by commercial banks}

(duplicate)

April 21, 1948

INFORMAL DISCUSSION OF THE EXECUTIVE
DIRECTORS

In the discussion of Professor Varvaressos's paper the first point on the agenda was taken up: What is the test of success of the Marshall Plan?

Professor Varvaressos, the first speaker, stated that he had found in the recent report of the E.C.E. the corroboration of many of the points made in his memorandum to the Board concerning in particular the conditions of success of E.R.P. and the situation in three key countries. He expressed disagreement with some of Dr. Rodan's comments on the same memorandum and announced the circulation of a paper on this subject. Another paper was also circulated, dealing with the supporting evidence to Professor Varvaressos's original memorandum to be found in the E.C.E. report.

Mr. Baranski explained that the real criterion of success for the Marshall Plan should be the attainment of equilibrium at high levels, but he added that in cases where very high standards were set, wise leaders were often satisfied by partial achievements. He clearly indicated that he thought full equilibrium impossible to attain in four years. Disequilibria were by no means confined to Europe alone. In Latin America, there was a dollar shortage and even in North America, if it were possible, there would be a shortage of "super dollars". Apart from the progress achieved in the pursuit of equilibrium, another criterion of success is the full use of external aid for investment. In this respect, in France and Britain, outstanding examples could be found. In France, the whole lending served to increase capital formation.^{1/} In Britain, in 1947, gross capital formation at home was 20% and the net disinvestment abroad (sales and borrowing) was 7% only. Net capital formation was thus 13%. Comparison of the two latter figures shows that

^{1/} See figures in annex.

resources of foreign origin were not only fully used for investment but were substantially supplemented by domestic effort ^{1/}. Speaking of the role of the key countries, Mr. Baranski agreed with Professor Varvaressos that deficits in France and Britain had to some extent their source in the fact that before the war equipment was often obsolete. In Britain, the commercial manager was always more important than the technician. But the situation has improved; in Britain, it is still rather unfavorable for coal and textiles, but better for electricity and engineering; in France, there was a great increase in hours of work (45 hours a week against 35 hours pre-war). Great improvements have thus been achieved by the two countries. Germany is quite a particular case. The social structure is damaged, perhaps beyond repair. There is no hope for the future, no more political or ethical standards. Even the unification of Germany would not suffice to cure the evils. Money has ceased to fulfill its functions, and the experience of occupied Poland has taught Mr. Baranski what powerful disruptive forces are set loose when 60% of the total national turnover takes place in the black market. The monetary situation of Germany has not been deliberately provoked by the Allies as the Polish one was by the Germans. But the effects are the same, and a solution is urgently needed.

On the problem of trade, Mr. Baranski felt that exaggerated strives towards multilateralism were a mistake. A rising volume of bilateral trade is better than a lagging multilateralism. It is no longer true that "free trade" is synonymous with "high levels of trade".

Professor Varvaressos referred to his memorandum on page 25 where he dealt with the conditions of success of the recovery programme. He said that required changes of structure in the European economy were so fundamental that four years were clearly not sufficient to achieve them. He did not agree that capital

^{1/} To allow for comparison with pre-war and war years, Table II of the British White Paper for 1947 has been reproduced in annex.

formation was a satisfactory criterion of success. The degree of success achieved is determined by the reduction of European dependence on foreign aid. This is the only real measure. Free trade can help, but full success cannot be attained. To find a criterion of success is therefore a question of degree, not of principle.

At Mr. Hoppenot's request, Mr. Rist explained the reasons for placing item I in the agenda. It has been felt necessary to get the Board's views on what might and should be accomplished in the European recovery. Is it enough that by 1961 Europe can be self-supporting, or the deficit reduced to a given margin? Or is a multilateral system of trade to be realized in addition?

Mr. Rist agreed with Mr. Baranski that capital formation was a very important element, and indeed one of the conditions of success. Mr. Baranski added that, in his view, the British rate of home capital formation (20% of G.N.P.) was the best answer to the accusations that the British loan had been wasted.

Mr. Varvaresses thought that capital formation had been aided by inflation. In respect of multilateralism, he thought M.R.P. would be a failure if no progress at all was made in that direction. But Europe had to adjust its economic structure to new requirements. Purposes of action had to be realistic, and degree of progress was more important than principles.

Mr. Figgures outlined the two main reasons of the dollar deficit. One is the abnormal level of physical demands on Western European supplies. This is the result of 1) European devastation and consequent low production (production in spite of all is doing well in some items). But agriculture, for instance,

cannot restore a 100% production before 1951, because of such long-term factors as soil impoverishment. 2) The reduction of East-West trade, particularly in grains. 3) The disappearance of supplies from the Far East.

The second main reason is the loss of invisible incomes. Disinvestment by Europe is going on every day, only the less liquid investments are retained. Prospective dollar earnings are reduced. Profits taken out of Europe rise. Therefore, action on both sides of the Atlantic is needed, if the growing dollar problem is to be solved. In Europe productivity must rise. It must be remembered that the capital formation mentioned in France and the U.K. is not a formation of new capital but merely reparation of war devastation. Europe will need to find external markets, and this can only be done with the help of America. The United States will have to run adverse trade balances in the future. In a paper prepared during the war by the U.S. Department of Commerce, it is foreseen that raw material shortages will develop in the U.S. in the late fifties. This should help Europe to balance its accounts. Europe may expect that abnormal supplies will cease in 1951, but normal ones will continue as well as debt payments. Europe will be unable (marginally) to be self-supporting.

Mr. Madan said that in his view the criterion of success was the restoration of multilateral equilibrium in all respects: in balance of payments, in production and in capital formation. If these equilibria can be achieved on the basis of bilateral trade, well and good. If they can be achieved by multilateralism, it is still better, but Mr. Madan cannot see how the E.R.P. could be a complete failure.

Mr. Garner said that it might be impractical to discuss at length what was the real test of success. He emphasized that in his view the position of Europe four years hence must be such as to allow private finance to step in and take the place of inter-governmental loans.

Mr. Figgures said that if private financing was not ready to provide about 1.5 billion dollars by 1951 then adjustments downward in the European standard of living would have to take place within the four years.

Professor Varvaressos emphasized the need to suppress inflationary distortion if efforts towards European recovery were not to be frustrated. Inflation aggravated import needs, diverted production towards luxuries and impeded exports. Exports from Europe to U.S. have diminished between 1946 and 1947. Furthermore, the social injustice brought about by inflation is dangerous. The test of success of the Marshall Plan will be the capacity of free European communities to realize such an amelioration in the social conditions of Europe as to provide incentives to produce, not to destroy. The example of the U.K. shows that better social justice is possible.

Mr. Cigliana-Piazza indicated that there were two aspects to be considered in estimating the success of the E.R.P.: the short range and the long range aspects. On the short range aspects it could be said that an economic collapse had already been averted in Europe and this was a definite success. The longer range success was a matter of gradual adjustments to be worked out. The attainment of multilateralism should not be made a criterion of success.

GREAT BRITAIN

TABLE II

ALLOCATION OF THE GROSS NATIONAL PRODUCT BETWEEN ^x
DIFFERENT USES

	<u>Percentages</u>				
	<u>1938</u>	<u>1944</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>
Current expenditure					
Personal	72	50	55	63	65
Government	15	57	49	27	22
Capital formation					
Gross capital formation at home	14	-	6	14	20
External investment ^{1/}	- 1	- 7	- 10	- 4	- 7
Gross national product	100	100	100	100	100

In France, according to the figures of the "Commission du Bilan National", percentages of import surpluses and of total investment to the gross national product were as follows:

	<u>1938</u>	<u>1947</u>
1) Total investment (public and private)	13.8%	18.8%
2) Excess of imports over exports	<u>1.8%</u>	<u>4.8%</u>
Net excess of (1) over (2)	12%	14%

Source: Commission du Bilan National, Table IIIA - December 1947.

^{1/} Net borrowing and sales of assets abroad.

^x Source: National income and expenditure of the U.K. (White Paper) 1947.

ROUTING SLIP

Date Apr. 29, 1948

TO-	Name	Room No.
1	Mr. R.H. Demuth	1023
2		
3		
4		

FOR-	Action	Initialing
	Approval	Preparing Reply
	Comment	Previous Papers
	Filing	Noting and Returning
	Full Report	Recommendation
	Information	Signature

REMARKS

This is a summary of the discussion of Prof. Varvaressos's paper. It has not been circulated. Mr. Rist thinks you might be interested to have copies for yourself and possibly for Mr. McCloy.

FROM- G. de Fleurieu

April 21, 1948

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Mr. Baranski explained that the real criterion of success for the Marshall Plan should be the attainment of equilibrium at high levels, but he added that in cases where very high standards were set, wise leaders were often satisfied by partial achievements. He clearly indicated that he thought full equilibrium impossible to attain in four years. Disequilibria were by no means confined to Europe alone. In Latin America, there was a dollar shortage and even in North America, if it were possible, there would be a shortage of "super dollars". Apart from the progress achieved in the pursuit of equilibrium, another criterion of success is the full use of external aid for investment. In this respect, in France and Britain, outstanding examples could be found. In France, the whole lending served to increase capital formation.^{1/} In Britain, in 1947, gross capital formation at home was 20% and the net disinvestment abroad (sales and borrowing) was 7% only. Net capital formation was thus 13%. Comparison of the two latter figures shows that

^{1/} See figures in annex.

resources of foreign origin were not only fully used for investment but were substantially supplemented by domestic effort ^{1/}. Speaking of the role of the key countries, Mr. Baranski agreed with Professor Varvaressos that deficits in France and Britain had to some extent their source in the fact that before the war equipment was often obsolete. In Britain, the commercial manager was always more important than the technician. But the situation has improved: in Britain, it is still rather unfavorable for coal and textiles, but better for electricity and engineering; in France, there was a great increase in hours of work (45 hours a week against 35 hours pre-war). Great improvements have thus been achieved by the two countries. Germany is quite a particular case. The social structure is damaged, perhaps beyond repair. There is no hope for the future, no more political or ethical standards. Even the unification of Germany would not suffice to cure the evils. Money has ceased to fulfill its functions, and the experience of occupied Poland has taught Mr. Baranski what powerful disruptive forces are set loose when 60% of the total national turnover takes place in the black market. The monetary situation of Germany has not been deliberately provoked by the Allies as the Polish one was by the Germans. But the effects are the same, and a solution is urgently needed.

On the problem of trade, Mr. Baranski felt that exaggerated strives towards multilateralism were a mistake. A rising volume of bilateral trade is better than a lagging multilateralism. It is no longer true that "free trade" is synonymous with "high levels of trade".

Professor Varvaressos referred to his memorandum on page 25 where he dealt with the conditions of success of the recovery programme. He said that required changes of structure in the European economy were so fundamental that four years were clearly not sufficient to achieve them. He did not agree that capital

^{1/} To allow for comparison with pre-war and war years, Table II of the British White Paper for 1947 has been reproduced in annex.

formation was a satisfactory criterion of success. The degree of success achieved is determined by the reduction of European dependence on foreign aid. This is the only real measure. Free trade can help, but full success cannot be attained. To find a criterion of success is therefore a question of degree, not of principle.

At Mr. Hoppenot's request, Mr. Rist explained the reasons for placing item I in the agenda. It has been felt necessary to get the Board's views on what might and should be accomplished in the European recovery. Is it enough that by 1951 Europe can be self-supporting, or the deficit reduced to a given margin? Or is a multilateral system of trade to be realized in addition?

Mr. Rist agreed with Mr. Baranski that capital formation was a very important element, and indeed one of the conditions of success. Mr. Baranski added that, in his view, the British rate of home capital formation (20% of G.N.P.) was the best answer to the accusations that the British loan had been wasted.

Mr. Varvaressos thought that capital formation had been aided by inflation. In respect of multilateralism, he thought E.R.P. would be a failure if no progress at all was made in that direction. But Europe had to adjust its economic structure to new requirements. Purposes of action had to be realistic, and degree of progress was more important than principles.

Mr. Figgures outlined the two main reasons of the dollar deficit. One is the abnormal level of physical demands on Western European supplies. This is the result of 1) European devastation and consequent low production (production in spite of all is doing well in some items). But agriculture, for instance,

cannot restore a 100% production before 1951, because of such long-term factors as soil impoverishment. 2) The reduction of East-West trade, particularly in grains. 3) The disappearance of supplies from the Far East.

The second main reason is the loss of invisible incomes. Disinvestment by Europe is going on every day, only the less liquid investments are retained. Prospective dollar earnings are reduced. Profits taken out of Europe rise. Therefore, action on both sides of the Atlantic is needed, if the growing dollar problem is to be solved. In Europe productivity must rise. It must be remembered that the capital formation mentioned in France and the U.K. is not a formation of new capital but merely reparation of war devastation. Europe will need to find external markets, and this can only be done with the help of America. The United States will have to run adverse trade balances in the future. In a paper prepared during the war by the U.S. Department of Commerce, it is foreseen that raw material shortages will develop in the U.S. in the late fifties. This should help Europe to balance its accounts. Europe may expect that abnormal supplies will cease in 1951, but normal ones will continue as well as debt payments. Europe will be unable (marginally) to be self-supporting.

Mr. Madan said that in his view the criterion of success was the restoration of multilateral equilibrium in all respects: in balance of payments, in production and in capital formation. If these equilibria can be achieved on the basis of bilateral trade, well and good. If they can be achieved by multilateralism, it is still better, but Mr. Madan cannot see how the E.R.P. could be a complete failure.

Mr. Garner said that it might be impractical to discuss at length what was the real test of success. He emphasized that in his view the position of Europe four years hence must be such as to allow private finance to step in and take the place of inter-governmental loans.

Mr. Figgures said that if private financing was not ready to provide about 1.5 billion dollars by 1951 then adjustments downward in the European standard of living would have to take place within the four years.

Professor Varvaressos emphasized the need to suppress inflationary distortion if efforts towards European recovery were not to be frustrated. Inflation aggravated import needs, diverted production towards luxuries and impeded exports. Exports from Europe to U.S. have diminished between 1946 and 1947. Furthermore, the social injustice brought about by inflation is dangerous. The test of success of the Marshall Plan will be the capacity of free European communities to realize such an amelioration in the social conditions of Europe as to provide incentives to produce, not to destroy. The example of the U.K. shows that better social justice is possible.

Mr. Cigliana-Piazza indicated that there were two aspects to be considered in estimating the success of the E.R.P.: the short range and the long range aspects. On the short range aspects it could be said that an economic collapse had already been averted in Europe and this was a definite success. The longer range success was a matter of gradual adjustments to be worked out. The attainment of multilateralism should not be made a criterion of success.

GREAT BRITAIN

TABLE II

ALLOCATION OF THE GROSS NATIONAL PRODUCT BETWEEN *
DIFFERENT USES

	<u>Percentages</u>				
	<u>1938</u>	<u>1944</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>
Current expenditure					
Personal	72	50	55	63	65
Government	15	57	49	27	22
Capital formation					
Gross capital formation at home	14	-	6	14	20
External investment ^{1/}	- 1	- 7	- 10	- 4	- 7
Gross national product	100	100	100	100	100

In France, according to the figures of the "Commission du Bilan National", percentages of import surpluses and of total investment to the gross national product were as follows:

	<u>1938</u>	<u>1947</u>
1) Total investment (public and private)	13.8%	18.8%
2) Excess of imports over exports	<u>1.8%</u>	<u>4.8%</u>
Net excess of (1) over (2)	12%	14%

Source: Commission du Bilan National, Table IIIA - December 1947.

^{1/} Net borrowing and sales of assets abroad.

* Source: National income and expenditure of the U.K. (White Paper) 1947.

FILE COPY

Mr. Robert L. Garner

April 12, 1948

Leonard B. Rist

Herewith for your consideration a note on the implications of the recent decision of the IWF concerning the drawings of E.S.P. countries.

Attachment

Copy to: Messrs. Eliff
Cress de Lough
Dennis
McLain

LER:mcc

FILE COPY

Alcon - S. C. A

April 7, 1948

Mr. Paul G. Hoffman
Hotel Statler
Washington, D. C.

Dear Mr. Hoffman:

In view of the many mutual problems which the International Bank will share with the ERP, I shall greatly appreciate an early opportunity to meet with you.

As you may know, our President, John J. McCloy, left on the first of April for about a six weeks tour of Latin America. Before he left we agreed that it was important that I take the first opportunity to establish contact with the Administrator as soon as he should be selected.

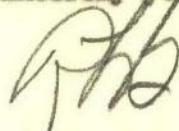
We in the International Bank have been following intensively the developments regarding the ERP ever since the beginning of the work of the coordinating committee in Paris. Our work has included the preparation of a large amount of material both independently and in consultation with United States Government departments, the Harriman Committee and representatives of the participating countries. Also, as you perhaps know, McCloy testified in support of the program before Senator Vandenberg's committee.

I realize that there will be great pressure upon your time, but in view of the close relationship of many of the problems with which your organization and ours will be dealing I believe that an early meeting will be mutually advantageous.

Permit me to extend my congratulations on your selection to a job, the difficulty and importance of which can not be exaggerated.

I shall appreciate hearing from you at your convenience.

Sincerely yours,



R. L. Garner

Delivered by hand 4/8/48

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

4/7/48

Mr. Garner-

Mr. Demuth brought this in.

It was given to Mr. Rist by Mr. Figgures.

MR

ERP
Rist
Figgures

DECLASSIFIED

APR 28 2022

WBG ARCHIVES

ANNEX A

DRAFT AGREEMENT

Strictly Confidential

FOR AN ORGANISATION FOR EUROPEAN ECONOMIC CO-OPERATION

PREAMBLE

PART I GENERAL OBLIGATIONS

PART II ORGANISATION

PART III FINAL CLAUSES

ANNEX FUNCTIONS OF THE SECRETARY GENERAL

PREAMBLE

The Governments of.....

CONSIDERING that a strong and prosperous European Economy is essential for the attainment of the purposes of the United Nations, for the preservation of individual liberty, the increase of general well-being and the maintenance of peace,

BELIEVING that without close and lasting co-operation between the Contracting Parties the prosperity of Europe cannot be restored or maintained, nor the ravages of war made good,

RESOLVED to achieve the aims set forth in the General Report of the Committee of European Economic Co-operation, particularly the speedy establishment of sound economic conditions enabling the Contracting Parties as soon as possible to achieve and maintain a satisfactory level of economic activity, without extraordinary outside economic assistance,

DETERMINED to unite their economic strength to these ends, to combine together to make the fullest collective use of their individual abilities, to develop their production, increase and modernise their industrial and agricultural equipment, promote the expansion of their trade, ensure full employment and restore or maintain the stability of their economies and general confidence in their national currencies;

TAKING NOTE of the generous resolve of the American people, expressed in the action taken to furnish the assistance without which the aims set forth above cannot be fully achieved;

RESOLVED to establish the institutions necessary for the success of European economic co-operation and for the effective use of American aid, and to conclude an Agreement to this end;

HAVE AGREED on the following provisions :

Article 1

The Contracting Parties agree to work in close economic co-operation in their relations with one another. As the immediate objective of their efforts, they will undertake the elaboration and execution of a joint recovery programme.

To this end, and in a spirit of self-help and mutual aid, they pledge themselves to assume the following general obligations and hereby set up an Organisation for European Economic Co-operation hereinafter referred to as the Organisation.

2

PART I

GENERAL OBLIGATIONS

Article 2.

The Contracting Parties will, both individually and collectively promote with vigour the development of production, through efficient use of the resources at their command (whether in their metropolitan or overseas territories) and by the progressive modernisation of equipment and techniques, in such manner as may best assist in accomplishing the programme.

Article 3.

The Contracting Parties will draw up, as often as necessary, within the framework of the Organisation and in the light of their several estimates and programmes and of general world economic conditions, programmes for the production and mutual exchange of such commodities and services as may be agreed.

Each Contracting Party will use its best endeavours to secure the fulfilment of such programmes.

Article 4.

The Contracting Parties will develop in mutual co-operation, the maximum possible interchange of goods and services. To this end, they will continue the efforts already initiated to achieve (in the shortest possible time), a multilateral system of payments among themselves, and will co-operate with one another in relaxing restrictions on trade and payments between one another, with the object of abolishing as soon as possible the abnormal restrictions which at present hamper their mutual trade.

In the operation of this Article, the Contracting Parties will take due account of the necessity that they should, collectively and individually, correct or avoid excessive disequilibrium in their financial and economic relations, both amongst themselves and with non-participating countries, particularly in order as soon as possible to achieve and maintain a satisfactory level of economic activity, without extraordinary outside economic assistance.

Article 5.

The Contracting Parties agree to strengthen their economic links by such methods as may appear to them to further the objects of the present Agreement. They will pursue the study, already, of a Customs Union or Customs Unions, the formation of which as well as that of free trade areas, might constitute one of the means of achieving this objective. These Contracting Parties that have already agreed in principle to the creation of Customs Unions will further the establishment of such Unions as rapidly as conditions permit.

Article 6.

The Contracting Parties will co-operate with other like-minded countries in relaxing restrictions on trade and payments, with a view to achieving a sound and balanced multilateral trading system.

Article 7.

Each Contracting Party will take such financial, monetary and other steps, as lie within its power, and with due regard to the need for a high and stable level of trade and employment, to avoid or counter inflation (whenever necessary), to achieve or maintain stability of its currency and of its internal financial position, sound rates of exchange and, generally, confidence in its monetary system.

Article 8.

The Contracting Parties will make the best possible use of their available manpower and will to this end co-operate in taking the necessary measures to facilitate the movement of labour; and will ensure the establishment of immigrant workers in conditions satisfactory from the social and economic point of view; and, generally, will co-operate with one another in the progressive reduction of obstacles to the free movement of persons.

Article 9.

The Contracting Parties will furnish the Organisation with all such information as may facilitate the accomplishment of its tasks.

THE ORGANISATION

Article 10. Membership.

The Members of the Organisation shall be the parties to the present agreement.

Article 11. Aim.

The aim of the Organisation, the purposes of which are economic, will be the realisation of European co-operation. The immediate task of the Organisation will be to ensure the success of the European recovery programme, in accordance with the undertakings contained in Part I of the present Agreement.

Article 12. Functions.

To this end, the functions of the Organisation shall be:

- (a) to facilitate, promote and co-ordinate individual action on the part of the countries concerned. Further, in the sphere of their collective action, to prepare and implement, within the limits of such powers as are or may from time to time be agreed for the Organisation, the measures necessary to achieve the aim laid down in Article 11.
- (b) to facilitate and review the implementation of the present Agreement and to take such action, within the limits of its powers, as may be found appropriate in order to ensure the carrying out of the Agreement.
- (c) to provide the United States Government with such assistance and information in relation to the execution of the European recovery programme as may be agreed and to address recommendations to that Government.
- (d) at the request of the interested parties, to assist in the negotiation of such international agreements as may be necessary for the better execution of the European recovery programme.

The Organisation may also assume such other functions as may be agreed.

Article 13. Powers.

In order to achieve its aim as laid down in Article 11 the Organisation may:

- (a) take decisions for implementation by Members;
- (b) enter into agreements with its Members, non-member countries, the United States Government and International Organisations;
- (c) make recommendations to the United States Government and to International Organisations.

Article 14. Decisions.

The decisions of the Organisation shall be taken by mutual agreement of all the Members. Abstention of Members, provided they declare themselves not to be interested in the subject under discussion, shall not invalidate decisions, which shall be binding on all Members.

Part II - Continued

Article 15. The Council

(a) A Council composed of all the Members shall be the body from which all decisions derive.

(b) The Council shall designate annually from among the Members a Chairman and two Vice-Chairmen.

(c) The Council shall be assisted by an Executive Committee and a Secretariat General. The Council may set up such technical committees, or subsidiary bodies, as may be required for the performance of the functions of the Organisation. All such organs shall be responsible to the Council.

[The Benelux delegations have reserved their position on Articles 15 and 16 pending further study.]

Article 16. The Executive Committee.

(a) The Executive Committee shall consist of the Chairman of the Council and . . . Members to be designated annually by the Council. It shall carry on its work in accordance with the general and specific instructions of the Council and shall report on it to the Council.

(b) The Executive Committee shall have as its Chairman the Chairman of the Council.

(c) Any Member of the Organisation not represented on the Executive Committee may take part in all the discussions and decisions of that Committee on any item specially affecting the interests of that Member.

The Members of the Organisation shall be informed of the proceedings of the Executive Committee by the circulation in good time of agenda and summary records.

[The Benelux delegates have reserved their position on Articles 16 and 15.]

Article 17. The Secretary-General.

(a) There shall be a Secretary-General assisted by a first and a second Deputy Secretary-General.

(b) The Secretary-General and the Deputy Secretaries-General shall be appointed by the Council. The Secretary-General shall be under the instructions of the Council.

(c) The Secretary General shall attend or be represented at the meetings of the Council, the Executive Committee and, as required, at meetings of the technical committees and subsidiary bodies, with the right to participate in discussion. He will prepare the meetings of the Council and of the Executive Committee and will ensure the execution of their decisions of the Council and the Executive Committee.

In accordance with the general and specific instructions

Additional particulars as to the functions of the Secretary General are set out in the Annex to the present Agreement.

Article 18: Secretariat

(a) The Secretary General shall appoint such staff as the Organisation may require. Senior staff appointments and the staff regulations shall be subject to approval by the Council.

(b) Having regard to the international character of the Organisation, the Secretary General and the staff shall neither seek nor receive instructions from any Government, or from any other authority external to the Organisation.

Article 19: Technical Committees and Subsidiary Bodies

Technical committees and subsidiary bodies set up under Article 15 (c) shall be under the instructions of the Council. They shall be composed of the Members most concerned and will so organise their work that other interested Members may take part as may be necessary.

Article 20: Relationships with other International Organisations

The Organisation shall establish such formal or informal relationships with the United Nations, its principal organs and subsidiary bodies and with the Specialized Agencies, as may best facilitate collaboration in the achievement of their mutual purposes and aims. The Organisation may establish similar relationships with other international bodies.

Article 21. Headquarters

The Headquarters of the Organisation shall be in..... This shall not preclude the Council or its Committees or subsidiary bodies from meeting elsewhere, should their members so agree.

Article 22. Legal Capacity and Privileges

(a) The Organisation shall enjoy such legal capacity as is necessary for it to carry out its functions and to achieve its aims.

(b) The Organisation, its officials, and representatives of the Members of the Organisation shall be entitled to the privileges and immunities set out in a supplementary protocol.

Article 23. Financial Regulations

(a) The Secretary General shall present to the Council for approval an annual budget and accounts drawn up in accordance with the supplementary protocol on Financial Regulations.

(b)

(b) The financial year of the Organisation shall run from 1st July to 30th June.

(c) The expenses of the Organisation shall be borne by Members and shall be apportioned in accordance with the provisions of the supplementary protocol on Financial Regulations.

/PART III

5

PART III

FINAL CLAUSES

(1)

Article 24 Ratification and Coming into Force

(a) The present Agreement shall be ratified. Instruments of ratification shall be deposited with the Government of (the country in which the Agreement is signed). The Agreement shall come into force upon the deposit of instruments of ratification by not less than six (6) of the signatories, for all those signatories which have then ratified it. For each signatory which ratifies it thereafter, the Agreement shall come into force upon the deposit of its instrument of ratification.

(b) Nevertheless, pending the coming into force of the Agreement in the manner provided by the preceding paragraph, the signatories agree, in order to avoid delay in its execution, to put it into operation, on signature, on a provisional basis and in accordance with their several constitutional requirements.

Article 25 - Accession

At any time after the present Agreement has been ratified by not less than ten (10) signatories, any non-signatory European country may accede to it by notification addressed to the Government of (the country in which the Agreement is signed), provided that such accession shall be accepted by a decision of the Council. Accession shall take effect on the date of the decision.

(1) Note : The question of the manner of accession and ratification by the two Occupation Areas of Germany is under study and proposals will be made at the next session of the Working Party.

Article 26 - Withdrawal

Any of the Contracting Parties may terminate the application of the present Agreement of itself by giving twelve (12) months'notice to that effect to the Government of (the country in which the Agreement is signed) and to the Secretary General of the Organisation.

Article 27 - Communication of Ratifications, Accessions and Withdrawals

Upon the receipt of any instrument of ratifications, accession or withdrawal, the Government of (the country in which the Agreement is signed) shall give notice thereof to all the Contracting Parties.

Article 28 - Exclusion

If any of the Contracting Parties ceases to fulfil its obligations under the present Agreement it shall cease to be a party to the Agreement as from the date upon which the other Members so decide.

ANNEX

Functions of the Secretary General

Additional particulars as to the functions of the Secretary General are set out below :

- (1) He shall arrange, in agreement with the Chairmen of the technical committees, for these committees to be convened as required, and shall transmit to them the instructions of the Council and of the Executive Committee. He shall make the necessary secretarial arrangements in agreement with the Chairmen.
- (2) He shall follow the work of the subsidiary bodies and transmit to them as necessary the instructions of the Council and of the Executive Committee.
- (3) He shall make the necessary arrangements within the framework of any relationships established under Article 20 for liaison with other international organisations. *
- (4) He shall undertake all such duties of an administrative and financial nature necessary for the efficient administration of the Organisation as may be entrusted to him by the Council or by the Executive Committee.

* I A reservation has been made on this text

7

ANNEX B

DRAFT RESOLUTIONS FOR C,E,E.C. ON THE FUNCTIONS
OF THE ORGANISATION FOR EUROPEAN ECONOMIC
CO-OPERATION

The Committee of European Economic Co-operation,

CONSIDERING that the Organisation for European Economic Co-operation which is to be set up will be entrusted with the functions covered by Article 12 of the Agreement,

AND CONSIDERING it desirable to define the tasks of the Organisation, within the framework of these functions,

RECOMMENDS that the Organisation should in particular assume the following tasks to the fullest extent possible :

1. To prepare as often as necessary, on the basis of and after examination of national estimates or programmes, such overall production, import and export programmes as appear necessary for European recovery.

2. To consider, in the light of national investment, estimates or programmes submitted by the participating countries, the optimum utilisation of productive capacity and manpower to develop the resources of their metropolitan and overseas territories, and the measures necessary to achieve this objective.

3. To promote consultation between the countries concerned, to consider the measures and create the machinery necessary for European co-operation especially in matters of trade, international payments and movement of labour.

4. To investigate methods of co-ordinating the purchasing policies of Members, wherever this is necessary,

5. To assist Members to surmount difficulties incurred in the execution of the European recovery programme,

6. To make recommendations as need be (to the United States Government) on the allocation of commodities among the Members having due regard to the allocating functions of other international organisations.

7. To take all possible action to ensure the most efficient use of external aid and to contribute towards ensuring the most efficient use of indigenous resources.

8. To prepare reports as often as necessary on the execution of the European recovery programme and the use of external aid.

9. Having regard to Article 9 of the Agreement, to collect all such information as may facilitate the accomplishment of its tasks.

ANNEX C.

DRAFT RULES OF PROCEDURE

(Submitted by the Working Party to the C.E.E.C. for transmission as a recommendation to the Council of the Organisation).

Article 1. Meetings

(a) The conduct of meetings shall be in the hands of the Chairman.

(b) At all meetings the presence of a majority of members of the Council or of the Executive Committee or the technical committees or the subsidiary bodies concerned shall suffice for the purpose of opening the proceedings.

(c) The Council and Executive Committee shall meet as necessary to complete their business satisfactorily; they shall in any case meet at the call of the chairman or at the request of any one of their Members.

Article 2. Agenda.

Any Member shall have the right to place an item on the agenda. In the case of a Member not represented on a given committee, the chairman concerned shall be consulted before an item is placed on the agenda. Agenda shall be circulated to all Members in good time.

Article 3. Records

The Secretariat shall circulate in good time summary records of the proceedings of the Council, Executive Committee, technical committees and subsidiary bodies of the Organisation, together with the texts of any decisions, recommendations or resolutions. Statements made with the request that they be recorded in the minutes shall be reproduced in these minutes or attached thereto.

Article 4. Languages.

French and English shall be the official and working languages of the Organisation.

Article 5. Publicity.

The meetings of the Council shall not normally be held in public. The Council may, however, decide that a particular meeting or meetings shall be held in public. The meetings of Committees and subsidiary bodies shall not normally be held in public.

Article 6. Amendments.

These Rules may be amended by the Council.

ANNEX D

PROVISIONAL SCALE FOR CONTRIBUTIONS
BY MEMBERS OF THE ORGANIZATION

	Actual percentage of States Members of the U.N.O.	Nominal percentage of States not Members of the U.N.O. (1)	Recapitu- lation	Provisional percentage of Members of the Organization
AUSTRIA	-	0.66	0.66	1.75
BELGIUM	1.35	-	1.35	3.60
COMBINED U.S.A./ U.K. ZONE	-	4.90	4.90	13.20
DENMARK	0.79	-	0.79	2.10
FRANCE	6.---	-	6.---	16.20
GREECE	0.17	-	0.17	0.45
IRELAND	-	0.33	0.33	0.87
ICELAND	0.04	-	0.04	0.10
ITALY	-	2.64	2.64	7.10
LUXEMBOURG	0.05	-	0.05	0.13
NORWAY	0.50	-	0.50	1.35
NETHERLANDS	1.40	-	1.40	3.75
PORTUGAL	-	0.99	0.99	2.65
UNITED KINGDOM	11.48	-	11.48	31.---
SWEDEN	2.35	-	2.35	6.30
SWITZERLAND	-	1.98	1.98	5.30
TURKEY	0.91	-	0.91	2.45
FRENCH ZONE	-	0.66	0.66	1.75
	25.04%	12.16%	37.19%	100 %

(1) These figures are based on the distribution units assigned to States not Members of the U.N.O. in Doc. 17 (with some slight changes). The theoretical percentage is calculated according to the French contribution (90 units = 6% U.N.O.)

ANNEX E

LIST OF SUGGESTIONS OFFERED FOR FURTHER CONSIDERATION

PREAMBLE

- Revised Section 2. BELIEVING that only by close and lasting cooperation between the Contracting Parties can the prosperity of Europe be restored and maintained, and the ravages of war made good;
- New Section 3. RECOGNISING that their economic systems are inter-related and that the prosperity of each of them depends on the prosperity of the entire group;
- Section 4 (formerly Section 3). Add at end of paragraph "and to make their full contribution to world economic stability";
- Section 5 (formerly Section 4). line 5: add after "trade", "to reduce progressively tariff and other barriers to trade among themselves".
- Section 6 (formerly Section 5). delete: "by the Congress and the Administration of the United States".
- Section 7 (formerly Section 6). add after "desirous of", "creating and conditions and".
Second line delete: "and for"; replace by "including".

PART I

GENERAL OBJECTIVES

- Article 3, Fourth line delete: "such" and "as may be agreed".
- Article 4, Sixth line, after "object of" insert "bringing about the progressive elimination of trade barriers and of".
- Article 5, line 2, delete "such methods as may appear to them to" and insert "all methods which they may determine will".

Substitute for first clause of second sentence the words "To this end they agree to continue and strengthen their present efforts to define the problems involved and the steps to be taken in the formation of Customs Unions or free trade areas".

- Article 6, add: "in accordance with the principles of the Charter for an International Trade Organisation".

March 26, 1948

Dear Professor Varvaressos:

I have your letter of the 21st returning Mr. Leffingwell's comments as well as your own. Just to keep the ball rolling I am sending another one. This is only a sample as I have gotten others of the same nature.

I have kept confidential the list of those to whom I have sent your memorandum.

I hope you are rapidly recovering.

Sincerely,

Professor K. Varvaressos,
Executive Director,
International Bank for Reconstruction
and Development,
1818 H Street N. W.,
Washington, D. C.

Carmody

Varvarevas

MAR 25 REC'D



**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

WASHINGTON ²⁵ 16, D. C.

March 24, 1948

Dear Mr. McCloy:

Very many thanks for sending me Mr. Leffingwell's letter which I return herewith. I greatly appreciate your kindness in letting me see all the favorable comments on my Memorandum. I suspect that you keep to yourself the unfavorable ones.

Mr. Leffingwell expresses in a striking and vivid manner what I had in mind when I questioned the possibilities of real European economic integration. It is very encouraging to hear that the points I made in the Memorandum have been found useful. I agree with Mr. Leffingwell about the limitations and drawbacks of Government planning and control in Europe and I wish the conditions existed that would have allowed private enterprise to run the show, as it does with such conspicuous success in this country. But I do not think that this is possible under present conditions of inflationary distortion, scarcities and huge requirements for the reconstruction of basic facilities such as transportation, housing, equipment, etc.

It is not difficult to imagine what would have happened if, for instance, housing activities had been unrestricted in England. One would have seen large apartment houses going up by the hundreds in London's fashionable districts while the thousands of bombed-out people in the working class districts, many of whom throughout the war had lived in shelters like troglodytes, would still be waiting for decent accommodation. I have no doubt that unrestricted building would have been much more efficient than government controlled and subsidized building but think of the social consequences!

In my view the contrast between the social peace and harmony which exist in the Scandinavian countries, the Netherlands and Britain where Government control is strict and effective and the unrest and tension in France, Italy and Greece where private enterprise is for all practical purposes unfettered is too striking for its lesson to be ignored. What Europe needs today is better and more efficiently administered controls, not, as yet, the scrapping of such controls.

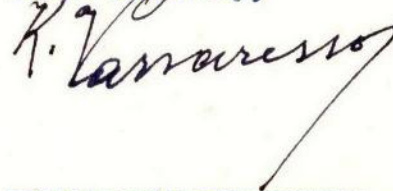
I also doubt that the mass of the people in Europe, given their present mood, desire a return to unlimited private enterprise, even after the emergency is over. This, however, is a negative approach. As I pointed out in my memorandum, very much depends, as far as the future of Europe is concerned, on whether a workable alternative to the free market mechanism can be found that will combine the desire for social justice with the requirements of efficiency and the provision of the necessary incentives. This

has not happened as yet and I quite understand the impatience which efficient American businessmen must feel at the sight of European muddling.

In order, however, to see the thing in its true perspective one must try to visualize what would have been the picture if there had been no controls. My own impression is that civil strife and communism rather than a more rapid recovery would have been the main beneficiaries of such an attempt to let the profit motive alone take care of Europe's present-day needs. One is forced back to the conclusion that there is no simple and clearcut answer to the complex economic and social problems with which Europe is beset.

The important thing, as Mr. Leffingwell points out, is to prevent Russian-sponsored communism from taking advantage of present difficulties in order to impose its rule in Europe. For this some additional breathing space is needed which will give the Europeans the opportunity of freely working out a solution to their problems, that will be compatible with human dignity and Western tradition.

Yours sincerely,



K. Varvaressos

Mr. John J. McCloy, President,
International Bank for Reconstruction
and Development,
Washington, D. C.

March 17th, 1948.

Marshall Plan

Memorandum on the Prospects of European Recovery under the Marshall Plan
(by Professor K. Varvaressos)

SUMMARY

Two outstanding characteristics of the present crisis are (i) that it is a foreign exchange and not a production crisis, (ii) that it originates in Britain, France and Germany. The position of many of the other countries would ^{BE} greatly eased if the problem of the three main centres were solved.

The causes of the crisis are more complex than is generally believed. In Britain the seeds of the troubles were sown in the inter-war period when there was a failure to keep pace in industrial efficiency and a failure to adapt the economy to changed demand conditions. These failures were masked by (a) the fall in primary product prices (b) Imperial Preference, (c) the trade agreements of the 'thirties, (d) the ban on foreign lending, (e) substantial debt repayment (f) unemployment. This latter kept export costs low and, by keeping down incomes, held down the demand for imports.

But there would have been a demand for a full employment policy even if war had not come. This would have caused the same drift away from the coal and textile industries as occurred during the war, even if less rapidly. It is difficult to exaggerate the part played by the decline of these two industries in the present crisis. In addition the demand for reduced economic inequality could not have been ignored and this results in a much increased demand for imports. Thus, even without a war, there would have been a balance of payments crisis.

The war added to these difficulties by causing (i) liquidation of foreign investments, (ii) rise in primary product prices, (iii) heavy cost of military commitments. Other factors in the present situation are (i) failure of coal and textile export targets, (ii) lack of co-ordination in export and financial planning resulting in large amounts of "unrequited" exports, (iii) failure to realise gravity of situation, due partly to American loan, (iv) fuel crisis.

France suffered a decline in relative economic strength similar to that of

Britain. Throughout the 'thirties' there was a balance of payments deficit of \$200 million per annum. Unemployment played the same role as it did in England. Working class dissatisfaction grew but French wealthy classes relied on repression and fascism to keep it down, instead of giving way as did their English counterparts. This resulted in the spread of Communism. The war intensified these difficulties in familiar ways but since the war the French workers have made a great production effort and accepted a greater reduction in real wages than those of any other European country. The chaotic financial conditions are due to insufficient taxation on high incomes. The circle of those profiting from inflation has now expanded to include a large section of the population. Weak centre governments cannot deal with this vast inequality of wealth. The present measures may well be too little and too late.

In Germany, the picture is one of unrelieved gloom. Production is low and there is great financial dislocation. The Economist estimates that perhaps as much as 60% of general output is completely outside control. It remains to be seen how effective the proposed monetary reform will be.

The effort of the British to control the German economy down to the last detail is bound to fail. Moreover it will very probably prove impossible to cajole the Germans into sincere co-operation in the present political situation. Finally, unless trade is encouraged between Germany and Eastern Europe, Germany cannot become economically viable except by competing with the rest of Western Europe in exporting to the Western Hemisphere.

CONDITIONS FOR SUCCESS OF ERP

The prospect that by 1951 it will be possible to discontinue American aid without causing a European collapse is reasonably bright. But that European countries will by then be fully adjusted to their changed conditions is much less certain.

On the European side the first necessity of success is the establishment of financial stability. In Britain, this will be difficult as there is a great need for high investment and there are accumulations of purchasing power which have been legitimately earned and so cannot be treated by any sort of Plan Gutt. In France, as already explained, political and social factors make further inflation unavoidable.

Secondly, there must be a great expansion of production and exports. An expansion sufficient to enable relaxation of import controls cannot occur within four years.

American competition will make it necessary to devalue European currencies, including the pound. To devalue the pound now might be premature but it should not be left so late that it coincides with an American depression as this would be regarded as unfair competition.

Finally, social and political stability is essential. Here, the prospects are good in Scandinavia and Britain but poor in France and Germany. De Gaulle is no answer to the French problem as the most productive part of the population is against him, and his followers contain too many who place their personal interests above their country's. The Germans cannot be expected to be enthusiastic to make their zones self-supporting and thus assist consolidation of the division of their country.

On the American side, the policy-makers must convince the Europeans that performance, not politics, is the criterion for aid. They must also have a thorough understanding of European conditions. The avoidance of an American depression is another necessity.

Conclusions on the chances of success. Britain appears to have the brightest prospects. "I have grave doubts on French prospects." "..... Germany ... can never become self-supporting while she remains occupied and partitioned." The dollar shortage will remain after 1951 owing to uneven economic growth between Europe and the Western Hemisphere. In the past, the consequences of such growth were compensated by foreign investment, but "a resumption of American foreign lending on any substantial scale will be possible only through the Bank".

European Economic Integration. This idea, rapidly becoming popular in the U.S., "disregards the realities of the European situation and may become a cause of serious misunderstandings and disappointments at a later stage". To "integrate" Europe would require a vast amount of investment which simply cannot be done at the moment. The co-ordination of policy is a quite different matter and is urgently required. But "I would strongly recommend a special investigation on this question of European integration by the Staff of the Bank. A detailed study (which) would examine objectively the concrete possibilities under existing conditions would ... show the dangers of this approach in the (present) context."

J.H. Collier/mlc.

OFFICE MEMORANDUM

TO: Professor Varvaressos

DATE: March 22, 1948

FROM: J. J. McCloy

SUBJECT:

Attached hereto is a letter from Mr. Leffingwell which I am sure you will be interested in reading. Will you be good enough to return it to me?

I hope you are rapidly recovering.

Ret'd.
JJ McCloy to LA.

itself, would require a long inquiry and I am not yet certain that U.K. interests can be fully reconciled with those of the European mainland. But there seems to be no reason why an area of discrimination from which U.K. would exclude itself should be unworkable. The fact that France, traditionally a protectionist country, turns out to be the main proponent of customs union today, seems also to warrant some scepticism. But from all we hear, the eagerness of France to join into customs-union (1) appears quite sincere and no better time than this could be found to bring about a change of mind.

In short, by legalizing discrimination, customs-unions may assist in solving the dollar problem and even if they do not result in immediate trade advantages for the participants, ^{which} they should provide for a framework, diplomatic and psychological, without/cooperative agreements could not be worked out.

2. Production targets of European countries :

Professor Varvaressos is sceptical as to the ability of European countries to achieve the production goals set forth in the Paris Report. Nobody can state in cold blood that they can be reached, but one should not under-estimate the importance of the bottlenecks ; coal, steel, power, transportation, etc. remain major stumbling blocks. The threat that raw material may be missing within a short while is a deterrant to initiative and the lack of incentive to work acts in the same direction. There is no doubt in my mind, although these remarks have been repeated quite often, that they have lost none of their weight. The ability to plan ahead is an indispensable prerequisite for efficient work. If this is restored, much can be achieved.

That improvement can be brought about is clearly exemplified by the recent increase in British coal production. It is true, however, that the extent to which new investments and in particular, new equipment, are provided ~~has~~ a direct effect on the rate of increase of production.

3. Problems of European countries :

Professor Varvaressos analyses the positions of some European countries with remarkable acumen. He points out, quite rightly, that the problems by which they are beset are not all new and underlines the foremost importance of U.K., France and Germany, the social and political stability of Britain and the effects of full employment on wages and costs in the U.K. But in so doing he tends inevitably to neglect the influence of the war in the destruction of material and financial capital and lay stress merely on the loss of foreign assets. As a correction to the usual tendency of too many people to look at the European problems as if they were only the result of war, it is sound and realistic, but Professor Varvaressos tends to under-rate the disruptions due to war.

(1) Agreement in principle seems to have been nearly reached in Brussels on the extension of Benelux to France.

The very interesting comparison drawn between Britain and France does not seem to be correct on all counts.

a) External position : a comparison of the risk involved in lending to France or to Britain should rest on political as well as economic reasons. From the political point of view, the French position is probably weaker, although the tradition of the country as a debtor is as strictly contract-abiding as the British one. From the economic point of view, however, an examination of the external accounts of both countries shows that

- almost half of British imports both before and after the war include foodstuffs, while the French figures vary between 10 and 29%. This alone would make for a greater rigidity of British requirements;
- against the traditional trade deficit of both countries, the offsetting invisible elements most likely to revive (1) i.e. other than investment income and capital movements - amounted in 1938 to 40% in the case of France and 20% only in the case of Britain.

b) Internal position : One of the most remarkable features of the French economy during years of depression was the small number of unemployed. One can hardly speak of "widespread unemployment" since during the worst year of the depression France had 2.2% of its working population unemployed (1936) while Britain reached 12.8% (1932). This great stability of employment is partly the result of the smaller dependence of the French economy on foreign trade.

On the other hand, it is perfectly true that the distribution of personal incomes is much more favourable to the working class in Britain than in France. During the whole war period, real wages in U.K. have increased and they stood up since. In France they went down materially during the occupation (as in most occupied areas). Since the liberation they have declined further as prices shot up quicker than wages levels.. This is undoubtedly one of the main weaknesses of the present social structure in France. It is however not correct to state that the "possessing class" only has benefitted by this deterioration. The main beneficiaires were the peasants and to a degree the intermediaires who thrive in any inflationary period.

Politically, I may add that Right and Left have always been turbulent in my country. But the whole history of the Third Republic shows that since the two extremes appear irreconcilable, middle of the road politicians are pushed into power. With an improvement in day to day life, the appeals of the extremes - especially the right wing - should grow smaller and smaller.

(1) Tourism, insurance freight.

OFFICE MEMORANDUM

TO: Mr. Iliff

FROM: A.S.G. Hoar

SUBJECT: Meetings of the OEEC and ECE.

DATE: 24th February 1948

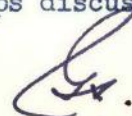
It is expected that a meeting of the Committee of European Economic Cooperation (the 16 Marshall Plan countries) will be held about 16th March in Paris though, according to the State Department, neither the time nor the place has yet been definitely set. A meeting of the UN Economic Committee for Europe, whose membership consists of all European UN members together with the United States, has been called for 31st March in Geneva. However, I am informed by the State Department that the programme committee of UNESCO intends to recommend that this meeting be postponed until about 26th April.

There is no indication at this time as to what will be on the agenda of these meetings. However, it seems very likely that the question of the Bank's lending in relation to any European recovery plan is almost bound to arise at both of these meetings. As you may possibly remember, Demuth raised the question at a meeting of the Staff Committee of the advisability of having a senior representative of the Bank on hand in and around these conferences to be available to answer questions concerning the Bank's policies. This representative would not, of course, participate directly in the meetings of either conference.

In view of the fact that the first of these meetings may be held in the very near future, may I suggest that, should you conclude that a member of this Department should attend these meetings, we should arrive at an early conclusion as to who should go.

In the event that you should decide that either Hill or I should go, may I remind you of my desire to visit Europe sometime early this year? Whether it would be a good thing to combine my visit with this assignment or not is a question which you, Hill and I might perhaps discuss at an early date.

ASGH/ts



OFFICE MEMORANDUM

DATE: 21st February 1948

TO: Mr. Hill

FROM: A.S.G. Hoar

SUBJECT: Meetings of the CECC and ECE.

It is expected that a meeting of the Committee of European Economic Cooperation (the Marshall Plan countries) will be held about 10th March in Paris though, according to the State Department, neither the time nor the place has yet been definitely set. A meeting of the UN Economic Committee for Europe, whose membership consists of all European UN members together with the United States, has been called for 1st March in Geneva. However, I am informed by the State Department that the programme committee of UNESCO intends to recommend that this meeting be postponed until about 10th April.

There is no indication at this time as to what will be on the agenda of these meetings. However, it seems very likely that the question of the Bank's lending in relation to any European recovery plan is almost bound to arise at both of these meetings. As you may possibly remember, Demuth raised the question at a meeting of the Staff Committee of the advisability of having a senior representative of the Bank on hand in and around these conferences to be available to answer questions concerning the Bank's policies. This representative would not, of course, participate directly in the meetings of either conference.

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In the event that you should decide that either Hill or I should go, may I remind you of my desire to visit Europe sometime early this year? Whether it would be a good thing to combine my visit with this assignment or not is a question which you, Hill and I might perhaps discuss at an early date.

ARTHUR H. VANDENBERG, MICH., CHAIRMAN
ARTHUR CAPPER, KANS. TOM CONNALLY, TEX.
WALLACE H. WHITE, JR., MAINE WALTER F. GEORGE, GA.
ALEXANDER WILEY, WIS. ROBERT F. WAGNER, N. Y.
H. ALEXANDER SMITH, N. J. ELBERT D. THOMAS, UTAH
BOURKE B. HICKENLOOPER, IOWA ALBEN W. BARKLEY, KY.
HENRY CABOT LODGE, JR., MASS. CARL A. HATCH, N. MEX.

FRANCIS O. WILCOX, CHIEF OF STAFF
C. C. O'DAY, CLERK

United States Senate

COMMITTEE ON FOREIGN RELATIONS

February 20, 1948

Honorable John J. McCloy, President
International Bank for
Reconstruction and Development
Washington 6, D. C.

Dear Jack:

✓
Thank you for your letter and the memorandum.

I have read it with great interest and return it to you promptly.

What you say in your letter about European union and the necessity for tolerance on the part of Europeans in connection with the administration of the Marshall Plan strikes me as very sound.

Thank you for thinking of me. With best wishes,

Very sincerely yours,

H. C. Lodge
Lodge

Marshall Plan E-R.P.
FEB 24 RECD
or
European Union

RECEIVED
FEB 23 10 59 AM '48
OFFICE OF THE SECRETARY
U. S. SENATE

Handwritten signature

Very sincerely yours,

I thank you for the information of the... with great interest...
in connection with the... and...
the... and the... of...
the... of... and...
I have... of... and...
I thank you for... and the...
Best regards:

Director

I have... of... and...
I thank you for... and the...
Best regards:

Best regards:

Secretary of the
International Bank for
Reconstruction and Development
Washington, D.C.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
FEB 23 10 20 AM 1948

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COMMITTEE ON FOREIGN REGULATIONS

Foreign Affairs Committee

U.S. GOVERNMENT PRINTING OFFICE: 1947
OFFICE OF THE SECRETARY
U.S. DEPARTMENT OF COMMERCE
WASHINGTON, D.C.

FEB 27 1948

E. R. P.
or
European Union

February 19, 1948

Dear Cabot:

I am sending you herewith my copy of the memorandum which I spoke to you about over the telephone. I have not had it analyzed and there may be some things in it that we would not subscribe to, but it is so penetrating an analysis of the European situation that it impressed me very much.

Although I think that the writer of it does well to warn against the speedy accomplishment of a European union and although we can't expect to find a complete political and economic integration of Europe as the result of the European Recovery Program, still I believe real steps can be taken and I know of a number of responsible Europeans who feel that it is not a fantastic concept.

What Doctor Varvaressos says about the necessity for tolerance on the part of Europeans in connection with the administration of the Plan is very sound. Unless we have that, as well as good administration, there is a danger that the ERP might become a stimulant to anti-American feeling rather than a stimulant to good will.

I should like to know what you think about the memorandum. As soon as you have read it, will you be good enough to let me have it back.

Sincerely,

Hon. Henry Cabot Lodge, Jr.,
United States Senate,
Washington, D. C.

Enc.

JJM:mel

FILE COPY

Files

February 17, 1948

Orvis A. Schmidt

OAS:amh

Estimate of IBRD Aid During the 15-month Period Assumed in the ERP Estimates Submitted to Congress

Reference is made to my memorandum for the Files on February 11 entitled "Method Followed by US Government in Drawing Up Certain ERP Estimates Submitted to Congress."

In discussing the subject further, I obtained the following additional information concerning the estimate of funds expected to be available to the ERP countries from sources other than their own earnings and the ERP.

The total amount of financing to be provided by sources other than earnings of the ERP countries and the U.S. under the ERP was estimated, according to my informant, at \$1,285,000,000. Of this amount, \$85 million represented payments which Portugal and Turkey were expected to be able to make out of their gold reserves, and \$700 million represented contributions and credits to be made to ERP countries during the 15-month period by other Western Hemisphere countries, leaving a balance of \$500 million still to be covered. Initially, it had been expected that \$150 to \$250 million would be available from the undisbursed balances of the Export-Import Bank, and \$50 to \$100 million from private investment, leaving a balance of from \$200 to \$300 million to come from undisbursed balances of the IBRD and new IBRD loans. At present it looks as though the undisbursed balances of the Export-Import Bank will be in the neighborhood of \$150 million for the loans then outstanding, but a new loan of \$50 million has been extended to Belgium which was not included in the original estimate.

The persons making the estimates assumed that by April 1 there would be about \$150 million of IBRD undisbursed balances, so that the amount of new loans expected to be made were in the neighborhood of \$50 to \$150 million.

Actually, the undisbursed balances of the Netherlands, Denmark, and Luxembourg loan total \$153.2 million as of February 15, so it is unlikely that the undisbursed balances will be as large as \$150 million by the end of March. Assuming that they are in the neighborhood of \$100 million, the ERP estimate for covering this \$500 million amount would be as follows:

Disbursements of EximBank Loans, including the \$50 million loan to Belgium.	\$150-200 million
Private Investment.	50-100 "
Disbursement of Old IBRD Loans.	100 "
New IBRD Loans	100-200 "
Total	\$ 500 million

The figure for the 4½-year period of the ERP program, which corresponds to the \$500 million program for the 15 months, is \$2.2 billion. Of this amount the ERP estimators figured that \$1 to \$1.5 billion would be made available by the IBRD.

cc. Messrs. W. Hill, F. D. Stephens, J. M. Penton, & WEDiv.

OFFICE MEMORANDUM

TO: Files

DATE: February 11, 1948

FROM: Orvis A. Schmidt *OS* *WH*SUBJECT: Method Followed By US Government in Drawing Up Certain
ERP Estimates Submitted to Congress

In order to facilitate our utilization of the breakdowns (by country and commodity) of ERP aid for the first 15 months drawn up at the request of Congress, I asked one of the persons who had worked on the breakdown how they had gone about it. The following information was obtained in the course of my discussion with him.

1. The estimates made by the CEEC were first gone over by commodity committees which modified the programs in the light of reasonable availabilities within the U.S. The commodity committees were primarily concerned with the basic raw materials involved in the reconstruction programs of the CEEC countries. The modified programs were then turned over to country committees which studied all of the items - that is, the non-programmed as well as the programmed commodity requirements. It was stated that the resulting estimates were generally lower than the CEEC estimates, but it was difficult to say how much lower.
2. The method by which the determination will be made of how much aid shall be given on a grant basis and how much on a loan basis is still not definitely settled. It had originally been thought that the determination could be based on the type of material needed - that is, that food, fuel, freight, etc. would be on a grant basis, but that equipment items would be on a loan basis. It was contended, however, that some countries (such as Sweden and Ireland) could pay for all of the imports needed, but that others (such as Austria and Greece) would not be able to pay even for the equipment which was necessary to rehabilitation. Accordingly, it was felt in some circles that the determination should be based upon the evaluation of the recipient countries' capacity to pay rather than on the type of materials. I gather that at present the sentiment is as follows: Persons in the administrative side of the Government are inclined to favor the evaluation of capacity to the pay method; Herter and members of the House Committee still favor the determination on the basis of type of materials in view of its simplicity; some members of the Senate Committee are leaning toward the evaluation of capacity to pay method, while others favor the type-of-materials approach.
3. The third column of the tables submitted to Congress contains estimates of sources of funds expected to be available to each of the ERP countries from sources other than their own earnings and the ERP. The general method employed in drawing up these estimates were as follows:
 - i. The year-end statement by the Import-Export Bank of undisbursed balances was taken, and for each ERP country a "guesstimate" was

made of the amount that would be undisbursed as of April 1, 1948. It was then assumed that this balance would be drawn down at an arbitrary rate during the 15-month period.

- ii. The same procedure was applied with respect to other credits known to be outstanding in favor of ERP countries, such as Argentine and Canadian credits. Small amounts were also added to cover possible new credits in some cases.
- iii. Estimates were made of the amounts to be obtained from the private holdings of nationals of ERP countries during the 15-month period.
- iv. Estimates were made of the possible expenditures in ERP countries by countries having adequate reserves of dollars.
- v. The procedure referred to in (1) was also applied to the undistributed balances of IBRD loans.

The estimates thus do not include any large new loans by either the IBRD or the Export-Import Bank.

OAS:amh

cc. Mr. W. Hill
Mr. L. Svoboda
Mr. G. L. Sandelin
Mr. R. F. Skillings
Mr. F. D. Stephens
Mr. J. M. Penton

E.R.P.

OFFICE MEMORANDUM

TO: Mr. W. Hill

DATE: February 11, 1948

FROM: Orvis A. Schmidt

SUBJECT:

In view of our discussion yesterday, I thought you might like a one page summary of the recommendations made by the Brookings Institution concerning the administration of the ERP. They are:

1. There should be created a new agency to be made an integral part of the Executive Branch of the Government to serve as the focal point of the administration of the program. Existing limitations on salaries and travel allowances would be waived for a limited number of its personnel.
2. The responsibilities and powers assigned to the new agency should be vested in a single administrator appointed by the President subject to Senate confirmation. He should have Cabinet rank and be responsible only to the President.
3. There should be created an advisory board composed of eminent citizens to be appointed by the President. The administrator should serve as chairman and should be authorized to set up other special advisory bodies.
4. The administrator should be responsible for formulating programs, determining financial and material requirements, and insuring the fulfillment of those requirements. He should have the authority to enter into arrangements with other government agencies for the utilization of their facilities. The control and allocation of funds should be the responsibility of the President. The financial arrangements to be used should be the responsibility of the administrator in consultation with the National Advisory Council. The President should be given authority to transfer to the new agency the administration of any current programs involving US foreign aid to participating countries.
5. The administrator and the Secretary of State are to keep each other informed, and any differences of view between them shall be decided by the President.
6. The new organization should have special representatives in each ERP country headed by a person second only to that of the Ambassador and free to communicate directly with the administrator or the heads of all other special missions.
7. The President should appoint, subject to Senate confirmation, a special representative of Ambassadorial rank to handle matters requiring joint negotiation with two or more participating countries.
8. The President should make periodical reports to Congress concerning the activities under the program.

OAS:amh



Record Removal Notice

File Title United States Government Agencies - Foreign Aid - Export Rehabilitation Project [ERP] and Economic Cooperation Administration [ECA] - Correspondence		Barcode No. 1071210		
Document Date Feb. 9, 1948	Document Type Memorandum			
Correspondents / Participants From: Mr. Richard Demuth To: J. F. Parkinson				
Subject / Title Post-war credits to Marshall Plan countries				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Ann May</td><td>Date April 08, 2022</td></tr></table>	Withdrawn by Ann May	Date April 08, 2022
Withdrawn by Ann May	Date April 08, 2022			

Europe

Copy

TO: NAC Working Group

SUBJECT: Role of International Bank in the European Recovery Program

I. The President of the International Bank proposes that the legislation to enact the European Recovery Program should provide that in addition to consultations with State and the National Advisory Council the administering agency be required to consult with the Bank. This proposal apparently implies that the present coordination procedures established under the Bretton Woods Agreement Act are not efficient, and that these procedures will prove inadequate for effective coordination between the agency of the U. S. Government which will administer ERP and the International Bank. The President of the Bank apparently proposes direct consultations between the Administrator of the European Recovery Program and the Management (not the Executive Directors) of the Bank. It is recommended that this proposal not be adopted for the following reasons:

1. The present coordinating machinery through the NAC and the U. S. Executive Directors of the Bank has proven itself over a period of several years to be effective. There does not appear to be reasonable ground for doubting that it will be equally effective under the extended government lending activities of the E.R.P.

2. Under the Bank's proposal there would be either duplication of present functions of NAC or inconsistencies with those functions. (a) If the Bank intends that the U. S. Executive Director continue to maintain liaison with U. S. Government lending agencies, the National Advisory Council machinery already makes ample provision for this. (b) If, on the other hand, the Bank's proposal intends that its President should have direct consultative relations with U. S. lending agencies outside of the NAC machinery, this involves inconsistency with the Bretton Woods Agreement Act (i) that the Executive Director of the U. S. act in this capacity and (ii) that he act through the National Advisory Council established by the Congress for this purpose. If, therefore, the Bank proposes direct consultations between its President and U. S. lending agencies including E.C.A. its proposal would seem to require amendment of the Bretton Woods Agreement Act.

3. The proposal of the President of the International Bank if favorably considered would prompt similar proposals for direct consultation with the E.C.A. on behalf of United Nations and its other specialized agencies such as the Fund, F.A.O., I.L.O., etc. These other agencies may, in fact, present a better case than the Bank for direct consultations (a) because there is no present machinery through the NAC for most of them to be consulted and (b) because they may be able to provide more prompt and independent answers than the Bank in view of its dependence upon outside sources.

4. In view of the generally recognized dependence of the Bank's decisions upon the acceptability of its debentures to the U. S. capital market this proposal for direct consultation in E.R.P. actually would involve the canvassing of the financial community including large institutional investors and investment bankers. This might well involve substantial delays and seriously curtail the operations of the administering agency. It might also involve the substitution of an investment opinion for an over-all judgment. The administering agency could be publicly embarrassed if as a result of consultation it were given an unfavorable judgment from the Bank, particularly after a canvas of the financial community. The Bank's proposal might jeopardize the entire European Recovery Program if by chance some future management of the Bank should entertain views not altogether consonant with the purposes of Congress in establishing E.R.P. or of the administering agency in formulating specific programs.

5. It has been the Bank's practice thoroughly to examine applications for loans and to send missions abroad to study conditions. Such a procedure, while requisite for the Bank's operations, is extremely time consuming. It is doubtful whether the Bank would act without taking these steps in connection with programs on which it would be consulted by the administering agency as proposed. Mandatory consultation as proposed by the Bank's President might have the effect of seriously delaying the realization of the European Recovery Program.

6. It would seem clear that the administering agency of the U. S. Government would wish to consult the International Bank either through the NAC or directly through the Bank's President or in both ways on such projects as this agency would consider eligible for the Bank's financing. Mandatory consultations with the Bank on all U. S. assistance under E.R.P. would seem to be neither appropriate nor requisite to insure the effective participation of the International Bank in the program. It is estimated that loans under E.R.P. will not aggregate more than 20% of the total and may fall as low as 10%. Those loans which might be eligible for financing by the International Bank might in turn aggregate only a fraction of this relatively small portion of the total program. But the Bank's President proposes that he be consulted on all grants and loans.

II. The President of the Bank further proposes that "loans out of funds appropriated by the Congress should be made on terms no more favorable than those on which loans by the International Bank are made". This proposal is based (a) partly on the ground that there should be equality of terms among all countries whether they borrow direct from the U. S. Government or through the International Bank and (b) upon the fear that should the agency administering E.R.P. be granted authority to exercise flexibility in grant or loan terms, such agency would, in fact, supercede the Bank and its utility would be seriously impaired. It is recommended that this proposal be not approved for the following reasons:

1. There are at present disparities in loan terms between various agencies of the U. S. Government and the International Bank. While this has resulted in some pressure for the more favorable terms from applicants it has not been a real source of difficulty in the U. S. foreign lending program. This is due in large part to the coordinating activities of the NAC and also to some extent to the informal consultations between the U. S. lending agencies such as the Export-Import Bank and the International Bank.

2. The terms on International Bank loans are determined by the price at which private investors are prepared to buy its debentures, or in other words, upon market rates. These rates have fluctuated and will continue to fluctuate. It would seem unnecessary to subject the administering of E.R.P. to the vagaries of the U. S. capital markets just because the Bank is essentially subject to them.

3. While the Bank contends that lower loan rates on direct U. S. loans would generate pressures for such direct loans, its proposal for uniform loan rates would have the effect of generating increased pressures for outright grants from U. S. Government. This also might impair the efficiency and flexibility of the administration of E.R.P.

III. The President of the Bank proposes that the Administrator of E.R.P. "should have authority under appropriate circumstances to subordinate loans made by him to loans of the International Bank." To provide for this subordination the President of the Bank has proposed a revision of the draft bill. It should be noted that the final sentence of his proposed revision goes beyond this proposal and relates to the first proposal i.e., for direct consultation. It is recommended that this third proposal be given favorable consideration for the following reasons:

1. The administering agency of E.R.P. should have broad flexibility in making terms on grants or on loans.

2. The operations of the Administrator should as far as feasible not interfere with the operations of other U. S. lending agencies, of international financing agencies such as the Fund and the Bank, or of the private capital markets.

3. The provision for subordination of U. S. loans should not only cover those made by International Bank but also loans made or participated in by private investors. Such subordination might act as a real stimulus to private investors in making funds available for the European Recovery Program.

ECA

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

[Handwritten signature]

FROM: THE SECRETARY

February 6, 1948.

EUROPEAN RECOVERY PROGRAM

Further to Secretary's Memorandum No. 335 of January 20, attached for information is Chart entitled "OUTLINE OF CAPITAL STOCK AND DOLLARS AVAILABLE FOR LENDING" of the International Bank for Reconstruction and Development, which is referred to on page 3 of the President's testimony before the United States Senate Committee on Foreign Relations.

Distribution

- Executive Directors and Alternates
- President
- Vice President
- Department Heads
- Assistant to Vice President

OUTLINE OF CAPITAL STOCK AND DOLLARS AVAILABLE FOR LENDING***CAPITAL STOCK***

AUTHORIZED (100,000 SHARES)	_____	\$ 10,000,000,000.
SUBSCRIBED (82,631 SHARES)	_____	8,263,100,000
<hr/>		
PAID IN		
2% IN GOLD OR U.S. DOLLARS	_____	165,262,000
18% IN CURRENCIES OF THE 46 MEMBERS	_____	1,487,358,000
	<i>TOTAL PAID IN</i>	<u>1,652,620,000</u>
80% SUBJECT TO CALL ON THE UNITED STATES TO MEET OBLIGATIONS OF THE BANK	→ \$ 2,540,000,000	
80% SUBJECT TO CALL ON OTHER MEMBER COUNTRIES TO MEET OBLIGATIONS OF THE BANK	→ 4,070,480,000	<u>6,610,480,000</u>
		\$ <u>8,263,100,000</u>

DOLLARS AVAILABLE FOR LENDING

2% PAID IN GOLD OR U.S. DOLLARS	_____	\$ 165,262,000
18% OF UNITED STATES SUBSCRIPTION	_____	<u>571,500,000</u>
	<i>AVAILABLE DOLLAR CAPITAL</i>	736,762,000
PROCEEDS OF SALE OF BONDS [July 15, 1947]	_____	<u>250,000,000</u>
	<i>TOTAL DOLLARS AVAILABLE FOR LENDING</i>	<u>986,762,000</u>
LOANS AGREED TO	_____	<u>497,000,000</u>
		\$ <u><u>489,762,000</u></u>

L

February 4, 1948

Dear Mr. Newberry:

Herewith is a draft of a memorandum,
the nature of which we talked about when you
were here. I hope this may be of some help
to you.

Sincerely,

Mr. Cammann Newberry
Office of Senator Lodge
United States Senate
Washington 25, D. C.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

2 / 3 / 48

Mr. McCloy:

Herewith

2 copies of a draft of
memorandum such
as we promised
Mr. Newberry.

Cary

CONFIDENTIAL DRAFT

February 2, 1948

Rodge
Sen.

DECLASSIFIED

APR 01 2022

WBG ARCHIVES

MEMORANDUM

In connection with proposals for mobilizing assets held in the United States by or for account of nationals of Marshall Plan countries a good deal of consideration has been given to the question whether it would be possible to distinguish in legislative treatment between so-called working capital and so-called idle or hoarded capital. For this purpose it is assumed that working capital means assets used in the normal course of business or trade in the United States and from which the particular foreign country realizes, directly or indirectly, an economic benefit. It is more difficult to define the term idle or hoarded capital. In general it is used to designate assets that have been withdrawn from the economy of the particular foreign country and are held or invested for the personal benefit or protection of the particular individual and which do not afford any direct or indirect economic benefit to his country, such as hoarded gold or foreign exchange held in the United States in order to escape taxes or restrictive regulations of a particular foreign country. It is not possible, however, to draw a clear line between the two types of assets.

The following list, while not complete, will serve to illustrate the difficulty.

1. Assets of foreign enterprises held in the United States for use in their ordinary business operations would generally fall into the category of working capital. But it is well known that some enterprises maintain dollar balances in the United States in excess of their working needs in order to protect such balances against depreciation of the local currency of the country in which the particular enterprise is organized. Foreign steamship companies, for example, may maintain such excessive balances here.

2. Investments by individuals in United States government securities would generally be regarded as not falling within the category of working capital. On the other hand such securities may be held by foreign insurance companies and used as deposits with state insurance authorities in order to qualify such companies to do business in a particular state.

3. Private residences owned by foreign nationals may be said not to fall within the category of working capital. But such residences may be held by foreign nationals who are in this country on productive business and who find it more economical to own than to rent their residences.

4. Even cash balances may present difficulties of classification. A number of foreign nationals who frequently visit the United States on productive business may maintain cash balances here for the purpose of paying their expenses while in this country and in order to avoid risk of loss in foreign exchange transactions. The question whether or not such balances are excessive would be difficult to determine.

5. Investments of foreign nationals in securities of American corporations may also present difficulties. If such corporations are operating subsidiaries of foreign enterprises, the investments may be classified as working capital. But what of an investment by a foreign national in bonds of Shell Union Oil Company? How does that differ in principle from an investment by the same national in bonds of Standard Oil Company? And what of an investment by a foreign national in dollar bonds of his own government?

The foregoing examples are sufficient to demonstrate the difficulty of specific definition of the two categories of assets in any legislation. The answer seems to be that any such legislation should be in broad terms and should have to the administrative agency broad discretion in its application.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: D. Crena de Iongh

DATE: 4 February, 1948

FROM: P.N. Rosenstein-Rodan *R.R.*

SUBJECT: *9214*

I attach herewith Mr. Harrison Clark's comments on Mr. Bissell's testimony.

Enc.

OFFICE MEMORANDUM

TO: Dr. Rosenstein-Rodan *R.R.*

DATE: February 3, 1948

FROM: Harrison Clark

SUBJECT: Memo of Mr. Crena de Iongh

Mr. Bissell did not amplify his remarks on the Bank during the testimony, but the context of his statement indicated that there should be no pressure on the Bank to make loans which the Bank did not consider sound. As you know, the Harriman Committee (on behalf of which Messrs. LaFollette and Bissell were testifying) had recommended that the I.B.R.D. finance the capital equipment loans, and that the U. S. increase its subscription to the Bank; if necessary, in order to cover such loans. The Committee added: "This recommendation is not to be understood as in any way affecting the criteria by which the Bank should determine the kind of loans it should make, or as a suggestion however remote that questionable loans should be undertaken" but only that "concern for the inadequacy of its reserves" would not deter the Bank from making the type of loan it would willingly undertake otherwise.

Mr. Bissell, in effect, was giving expression to this view of the Harriman Committee.

OFFICE MEMORANDUM

TO: Mr. Paul Rosenstein-Rodan

FROM: D. Crena de Iongh, Treasurer

SUBJECT:

DATE: February 2, 1948

In the Senate Hearing on January 28 I read that Mr. Bissell stated in his answer to Senator Wiley: "The standards of the Bank (meaning the International Bank) should not be lowered, however."

I am wondering what Mr. Bissell meant in this respect. Perhaps you could give me further elucidation.

A handwritten signature in dark ink, appearing to be 'D. Crena de Iongh', written in a cursive style.

DC/mct

MPAC/Senate Hearings/19/January 28, 1948

Prepared by: I.B.R.D.
Research Department
E. Harrison Clark

HEARINGS BEFORE SENATE FOREIGN RELATIONS COMMITTEE

MORNING, JANUARY 28, 1948

Robert M. LaFollette, Jr.
and
Richard Bissell of the
Harriman Committee

HEARINGS BEFORE SENATE FOREIGN RELATIONS COMMITTEE

MORNING, JANUARY 28, 1948

For several days the hearings before the Senate Committee have consisted of testimony by numerous individuals, most of whom were for the Marshall Plan, but each had some particular aspect to protest against. The National Association for the Advancement of Colored People objected, for example, to the colonial possessions held by certain of the Marshall Plan countries and the American Federation of Labor objected to the turning over of American ships to European countries. The testimony for several days has not been of any great importance but today's testimony by former Senator La Follette and Mr. Bissell had considerable significance.

Two important issues came out clearly. (1) That the Senate Committee is now completely committed to an independent agency outside of the control of the State Department, and (2) that the \$6.8 billion authorization requested by the Administration will be substantially cut by the Senate. It was clear from the very beginning of the hearings before the Senate Committee that the former would happen but it was not until today's hearings that there were ample indications of the firmness of the intention to cut the \$6.8 billion.

Senator La Follette's testimony, which is summarized below, in effect brought the Harriman Committee's report up to date. It was an extremely lengthy statement, over an hour in delivery. He repeated the original Harriman Committee proposal that the cost of capital goods be assumed by the I.B.R.D.

Summary of Statement of LaFollette

In the three months since the Harriman Committee made its report there have been numerous events which have affected the prospects for European recovery. I propose to discuss the relevance of these events to the committee's major conclusions and the relationship between our recommendations and the later proposals of the Administration. The evidence on which the Committee based its recommendations was in part the same as that used by the Executive Branch but the Committee did not rely entirely on official sources. In any case, the judgments contained in the Committee's reports were wholly its own.

The basic conclusion the Committee reached is that it is in the interest of the U.S. to promote ERP. It advocated annual appropriations but emphasized the necessity of a reasonable assurance to Europe that the U.S. would carry through the program.

It has never been certain that economic aid alone would be sufficient to preserve the external independence and the internal freedom of Western Europe--the objectives of the Marshall Plan--but the evidence of events since the Committee's report was written is, on the whole, encouraging. It should be emphasized, however, that only the Europeans can save Europe and nothing the U.S. can do will be effective unless the Europeans do much more. The burden of increasing production will fall almost wholly on them. It is only the European countries that can carry out measures to stop the/
present inflation and economic disorganization which has led to the misdirection of resources, the impairment of incentives and the restrictions on international trade. Since so much depends on European action

and initiative it is encouraging to observe that the governments have taken decisive action without waiting for the enactment of a U.S. program of assistance. This is true in England, France, Italy and even Austria. [At this point Senator LaFollette gave in considerable detail the measures taken in these countries.] The Netherlands appears to be the only independent nation in which the government is making little or no progress toward a more deflationary fiscal and monetary policy. Its difficulties have been particularly great because of the large amount of physical reconstruction, the cost of the war in the N.E.I., and so forth. I believe we can rely on the European nations to take the steps which are so essential to their recovery. The recent speech of Bevin calling for joint action is also greatly encouraging.

Although the Committee was convinced that the fate of Europe rested mainly in the hands of Europeans it was also convinced that recovery would be dangerously delayed or jeopardized in the absence of substantial U.S. help. One reason is that the necessary adjustments in the Western European economy will take time. The European nations are too poor to recover rapidly. Current production is not always adequate to maintain a tolerable standard of living and at the same time to permit essential capital formation. In Western Europe there is a close race between recovery and social disintegration.

Nearly everyone agrees in principle that the recovery of Germany is essential to the recovery of Western Europe. The worry of our former Allies about German recovery is wholly understandable. The Committee did not suggest giving German needs any priority over those of the rest of Europe but it did recommend that general recovery be placed ahead of

individual national interests. Many of the controversial issues can only be settled through delicate negotiations but by no means all questions of German economic policy fall in this category. The U.S., as an occupying power, is at least partially responsible for errors which are seriously retarding German and thus European recovery. It is in Germany that inflation has taken its most violent form. It is in Germany that the U.S. has made Germany a dollar area and has refused to accept payment for coal in other European currency. The use of Belgian and Dutch ports has been delayed by the inability of the occupation authorities to negotiate satisfactory foreign exchange agreements. In short the U.S. military government has adopted policies of precisely the sort that we are insisting the free governments of Europe shall abandon. It is necessary that U.S. policy in Germany be consistent with its policy elsewhere in Europe.

In regard to the amount of aid, the Committee assessed needs and capabilities as carefully as it could within the limits of time and information available. It is not possible to compare exactly the Committee's estimates and those of the Administration. The Administration's estimate of \$6.8 billion is largely by the use of a fifteen-month period and the inclusion of an allowance for relatively long-term forward obligations over and above the cost of procurement and shipping within the period. It is made smaller by the exclusion of a part of the assistance to Germany. The most direct comparison is that of our figure of \$5.75 billion with that of \$5.96 billion which is the Executive Branch estimate of the burden on the Treasury for fiscal 1949. On this basis the Administration's estimate is only slightly higher. This small difference in the estimates conceals much larger differences in their components. The Committee's

estimates of both European imports from and exports to the Western Hemisphere are lower while its allowance for financing by the I.B.R.D. and so forth, is higher.

There is, inevitably, a wide margin of error in any calculation of the amount. Not all the information is available and there are numerous uncertainties. No one can pretend to know precisely what resources will be required for this operation to achieve its objective. Accordingly the Committee recommended as low a figure as seemed reasonable. This does not mean the objective could not be realized under any circumstances at a lower cost. It should be emphasized though that the risks involved in authorizing too small a sum are real and are greater than the risks in the opposite direction and real economy can be achieved only by a tough, businesslike administration and not by setting too narrow a limit on the administrator's financial freedom of action. The same circumstances that make precise calculation of cost impossible compel the delegation of considerable authority. There are many actions the administrator can take which will have the affect of keeping down the cost. The need especially for industrial items and capital equipment should be carefully examined. Development projects that are not directly related to the building up of an export balance should not receive encouragement or assistance. [Senator LaFollette repeated the recommendations of the Harriman Committee on administration and then went on to say that he thought an important principle of administration would involve making good use of the facilities and experience of I.B.R.D. and the Ex-Im Bank. The I.B.R.D. is particularly well equipped to handle the financing of capital equipment and full responsibility for providing equipment might be concentrated in the I.B.R.D.]

Every American and every European should be made to understand that the current threat to economic stability in the U.S. is inflationary and not deflationary and it is sheer nonsense to think that we need an export program to maintain employment. The dollar magnitude of the program tends to understate rather than exaggerate the inflationary influence since Europeans most desperately need that we can least well afford to give them. The cost of the program in terms of inflationary dislocations may be painfully high if the U.S. is unsuccessful in reducing any of the other inflationary pressures. The consideration of a general program for the control of inflation was outside the Committee's terms of reference, but it recognized the necessity of making purchases outside the U.S. and of financing the program within a balanced Federal budget.

SENATOR VANDENBERG

Q -- What is the relationship between the Harriman and the Administration figures on cost? They are substantially the same on over-all figures, although the composing elements are not the same?

A -- Yes, but the only way to compare them is to take the burden on the U.S. Treasury. In this factor, the difference is remarkably small.

Q -- When you worked on it, you did not know the Executive would estimate only \$4.5 billion could be spent in the first fifteen months?

A -- No.

Q -- Did you make any estimates of what would be paid by the Treasury in the first fiscal year?

A -- No. We did not try to estimate the forward obligating authority.

Q -- The problem we face specifically at the moment is the gap between the \$4.5 billions in the flow of funds and the \$6.8 billions in authorization. There must be an additional margin, but is it necessary to have the gap so large as \$2.3 billion?

A -- The committee did not get involved in the question of the budget. Mr. Bissell can answer that question.

Mr. Bissell -- That gap does not represent entirely a forward obligating authority. It is rather a question of disbursements lagging behind shipments. It is necessary to appropriate for all goods to be shipped. This would be larger than \$4.5 billion.

It is surprising that there would be so large a gap. I should think half would be enough.

Q -- Then it is a question of estimating shipments?

A -- Yes. It would surprise me to learn so large an amount would be required but I think most of the \$6.8 billion will be needed.

Q -- Have you read the Brookings report and isn't it substantially in agreement with the Harriman Committee?

A -- Yes, except on two points: (1) a board on general policy that we wanted and (2) we avoided a definite recommendation on cabinet status for the Administrator.

SENATOR CONNALLY

Q -- What about the relations with State on foreign policy?

A -- The State Department is not an operating agency. It is already overburdened. The administration must be in an independent agency.

But the closest cooperation is necessary on questions of high policy.

SENATOR WILEY

Q -- When you calculated the \$5.75 billion, did you take account of aid to other areas, in determining the maximum that could be given?

A -- The Committee was concerned only with Europe but was aware of needs elsewhere. It was the best figure we could recommend for the first twelve months for Europe. We did allow for military costs in Japan and Korea.

Q -- You mentioned the use of the I.B.R.D. and the Export-Import Bank? What part of the sum did you estimate should be in loans?

A -- Capital improvements should be handled by I.B.R.D., according to Committee recommendations. Here is an efficient organization already in existence and it would be undesirable to set up a new one. The standards of the Bank should not be lowered, however.

SENATOR VANDENBERG

Q -- It is really now a question of coordination at the top level. Could we not have a committee with four distinguished persons plus the four cabinet members who would have the most important functions under ERP? This would concentrate those who have to cooperate. They could still appeal to the President.

A -- Yes, this is close to what the Committee wanted, but the Committee felt the Board should set the policy, which the Brookings report does not provide.

[Senator LaFollette will return for later questioning.]

FILE COPY

January 27, 1948

Hon. Arthur H. Vandenberg
Chairman, Committee on Foreign Relations
United States Senate
Washington, D. C.

Dear Senator Vandenberg:

When I appeared before your Committee on January 16th, I was asked whether it would be possible to make available to the Committee data prepared by the technical staff of the Bank with respect to the amount of assistance estimated by them to be required for purposes of European recovery, in order that such data might be utilized for comparison with the estimates put forward by the Administration. I am very happy to enclose certain materials which I trust may be of use to your Committee for this purpose. I want to emphasize that these materials represent only the views of the Bank's management and that they do not constitute an expression of opinion by either the Bank's Executive Directors or its member governments.

I believe it may help your Committee to evaluate the estimates contained in the enclosed data, and to compare those estimates with the estimates of the Administration, if I outline briefly in this letter the nature of the studies and investigations undertaken by the Bank's staff, the nature of the enclosed documents which contain the conclusions reached by the Bank's staff, and the salient points of difference between the Bank's figures and those presented by the Administration.

Since shortly after Secretary Marshall's speech at Harvard last June, the attention of a very large portion of the technical staff of the Bank has been devoted to an analysis of the causes of Europe's present economic difficulties and of the measures, in the form both of self-help and of external assistance, necessary to overcome those difficulties. In the course of this analysis, study was made of European production potentialities, of its import requirements in the light of

world availabilities, and of its prospective exports in the light of effective world demand. The staff utilized for this analysis certain confidential and other data furnished to the Bank by some of the countries concerned in connection with loan applications, other materials available in the Bank and other international agencies, the reports of the CEEC and of its technical committees and the individual country data on which those reports were based, materials available in various United States Government departments, information derived from extensive direct discussions with CEEC technical experts, and, perhaps most important of all, the international experience of the staff members themselves in the various aspects of the problems they were investigating. Separate and detailed reports were prepared on the major commodities and on such important aspects of the recovery program as convertibility of currencies, trade with Eastern Europe, Latin America and other areas, customs union, and other means for encouraging integration of the European economy.

Based on all these studies, a summary paper entitled "Evaluation of the CEEC report" was prepared, copies of which I am enclosing as Annex I. You will note that this document was written the middle of December, before the final Administration proposals were available to the Bank. The document contains, therefore, only the Bank's own estimate of requirements and a comparison of the Bank's figures with those of the CEEC and of the Harriman Committee.

In order to facilitate your use of Annex I, I have had the staff prepare two additional documents. The first, enclosed as Annex II, is simply a set of tables which is supplementary to the tables contained in Annex I and which compares in detail the Bank's estimate of import requirements with those of the Administration, the Harriman Committee and the CEEC. The second additional document, enclosed as Annex III, gives in tabular form a comparison, to the extent such comparison is feasible, of the Administration, Bank, Harriman Committee and CEEC estimates of the balance of payments of the sixteen participating countries and of Western Germany with the Western Hemisphere for the first year of the proposed recovery program.

Analysis of Annex III indicates the salient points of difference between the Administration's figures and those of the Bank, and the reasons why, in the opinion of the Bank's staff, the proposed \$6.8 billion appropriation recommended by the Administration for the first 15 months of the program, far from being extravagant, provides a rather tight fit. A brief discussion of the more important figures in Annex III may, therefore, be of value.

The import estimates shown on the first three lines of Annex III, as explained by footnote 2, reveal that the Bank's staff has estimated that imports of the participating countries and Western Germany from the Western Hemisphere for the first year of the program will amount to about \$350 to \$400 million less than estimated by the Administration. A detailed comparison, to the extent possible, of the import estimates of the Bank and of the Administration is contained, as I have already said, in the tables which comprise Annex II. The Bank's estimates, it should be pointed out, represent a reduction for the first year of about 6% in the quantity of commodity imports from all non-participating areas estimated to be necessary by the CEEC, and a reduction of about 22% in the CEEC estimate of equipment imports.

A more important difference between the Bank's figures and those of the Administration lies in the export estimates. Because of the estimated reduction of imports from the Paris estimates, it necessarily follows, I believe, that exports must also decline somewhat unless an austerity program were to be introduced of such severity as to affect seriously the capacity of Europe to meet its production targets. Furthermore, in the case of certain products, effective market demand for European exports may have been overestimated by the CEEC, in particular, for the first months of the program, by reason of import restrictions presently in force. The Bank's staff has therefore estimated European exports to the Western Hemisphere at an amount about \$360 million less than the CEEC estimate. The Administration, on the other hand, has estimated European exports to the Western Hemisphere at more than \$200 million above the Paris estimate. Thus there is a difference of almost \$600 million in the estimates of the Bank and of the Administration in this respect.

Another important difference between the Bank's estimate and that of the Administration is in connection with the item listed in Annex III as "Net Invisibles." My staff has not made a detailed study on this point, having accepted with minor changes the estimate contained in the Harriman Committee report.

The conclusion reached by the Bank's staff, as shown by Annex III, is that the deficit in the balance of payments of the participating nations and of Western Germany with the Western Hemisphere for the first year of the program will be in the order of magnitude of \$7.6 billion. The comparable Administration figure is \$6.753 billion. The portion of this 12-month deficit which can possibly be financed by sources other than new United States Treasury funds has been estimated by the

Administration to be \$964 million ("Outline of European Recovery Program", Senate Committee print, page 108); this figure, in my judgment is high rather than low, largely because I do not believe that credits or grants in the amount of \$500 million will be available from other Western Hemisphere countries, as is assumed by the Administration. Thus if the Bank's estimates were used as the basis for computing the extent of the requisite financing for the first year from new United States Treasury funds, the resultant amount would be larger than the amount recommended to the Congress by the Administration.

I do not wish what I have written to be misunderstood. Balance of payments estimates are not capable of scientific accuracy; they involve too many unpredictable elements, such as the weather, the trend of prices, the extent of business prosperity and many other similar elements. When the estimate involves not just one country but sixteen (plus Western Germany), and covers a period of marked economic instability, the uncertainties are multiplied. No figure can, therefore, be put forward with conviction as representing an exact estimate of the amount of financial assistance required. Nonetheless, I believe it is fair to say that, considering the factors discussed in this letter and the objectives sought to be achieved - i.e. helping Europe to become self-supporting at a standard of life somewhat higher than that prevailing today though below that of pre-war - the amount recommended for appropriation by the Administration is conservative.

Should your Committee desire any further explanation of the material enclosed with this letter, please do not hesitate to call upon me.

Sincerely yours,

John J. McCloy
President

RHD:dbs

E.R.P.

FILE COPY

Chiefs of Divisions and Loan Officers

January 19, 1948

C. H. Davies

Publications

One copy of a report by the President's Committee on Foreign Aid, entitled "European Recovery and American Aid", in Parts 1, 2, and 3, has been received by the Loan Department. This report, which will be made available to anyone desiring its loan, will be kept by Miss Helen Austin in the Loan Files.

CHD:by dh.

EUROPEAN RECOVERY PROGRAM

Statement by The Honorable John J. McCloy,
President of the International Bank for
Reconstruction and Development, before the
United States Senate, Committee on Foreign
Relations, Washington, D.C., Friday,
January 16, 1948

The committee met at ten o'clock a.m., pursuant to adjournment, in Room 318 of the Senate Office Building, Senator Arthur H. Vandenberg, Chairman, presiding.

Present: Senators Vandenberg (chairman), Capper, Wiley, Lodge, Connally, Thomas of Utah, and Barkley.

Also present: Senators Millikin and Thye; the Honorable Eugene R. Black, Executive Director, International Bank for Reconstruction and Development.

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The Chairman. The committee will come to order.

We are indebted this morning to the President of the International Bank for Reconstruction and Development for his presence to testify. Mr. McCloy, we will be very happy to have you proceed in your own way.

STATEMENT OF THE HONORABLE JOHN J. McCLOY,
PRESIDENT, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Mr. McCloy. Thank you, Mr. Chairman. I have no prepared statement.

I feel that I perhaps ought to say for the record, if you will pardon me, something in the nature of the capacity in which I appear. In connection with these international organizations

there is some question of immunities. I should say I have been invited to attend--I have not been subpoenaed to attend--and I am responding to an invitation from the Government which has made a tremendous and important contribution to the success of the institution which I represent. I am here, I suppose, in a somewhat indiscriminate capacity as an American citizen, as President of the Bank and an officer of the Bank. I think what I have to say clearly does not bind the Bank, and much less any of the countries which are members of the Bank.

Senator Wiley. Are you still solvent?

Mr. McCloy. We are still solvent. We will have a statement out very shortly which will show that we are in the black, which I think is an important development in the course of the history of the Bank. It is the first statement that shows we are in the black.

I think it will probably interest the committee to have me outline a little the structure of the Bank. Perhaps you are familiar with it, but so much has been said as to what role the Bank may play in this European Recovery Program that I think the only way I can effectively answer it is to show you the structure of the Bank and you can judge for yourselves, I think, more than I can tell you what role it can play.

The authorized capital stock of the Bank is \$10,000,000,000. The actual subscribed capital is something over \$8,000,000,000. I have a chart here of which I think I might give you copies so that

we can follow it. It is a very brief statement, and I think a rather clear one. You all have that. It is not necessary for me to display this larger chart, because it is only a larger reproduction of that that you have in your hands.

(Chart entitled "Outline of Capital Stock and Dollars Available for Spending" of the International Bank for Reconstruction and Development appears in the Printer's copy of this record.)

Mr. McCloy. Although the subscribed capital is over \$8,000,000,000, it is a rather peculiar type of subscription. We are not an \$8,000,000,000 bank by any means in terms of lending power. The subscriptions of the member countries, of which there were forty-four when we were formed at Bretton Woods, are divided into three categories. The first is a two per cent subscription which must be paid in gold or dollars, and that two per cent subscription is shown there to be \$165,262,000.

The Chairman. Does that mean that all the members have paid their share?

Mr. McCloy. They have paid their two per cent.

The next category is eighteen per cent, and in that category the members may contribute their own currencies. All have contributed their own currencies, including the United States.

Senator Connally. The market value of the currencies?

Mr. McCloy. We have a provision in the Articles that they must maintain a certain value of those currencies as they were of a particular date. I forget that date, but there is a provision for the change in values.

Senator Thomas of Utah. May I ask a question there, Mr. Chairman?

The Chairman. Go ahead.

Senator Thomas of Utah. This two per cent which you say all of the members have paid in--of what is that two per cent?

Mr. McCloy. It is two per cent of the entire 100 per cent subscription.

Senator Thomas of Utah. They do not subscribe up to the \$10,000,000,000, then?

Mr. McCloy. No. The authorized capital is \$10,000,000,000. The actual subscribed is \$8,263,100,000.

Senator Thomas of Utah. So that \$165,262,000 should be two per cent of \$8,263,000,000?

Mr. McCloy. That is right.

Senator Wiley. Confidentially, how much of this gold did the American Government actually provide, directly or indirectly?

Mr. McCloy. I think the countries themselves provided directly their gold or their dollars. Some gave gold. I think most put up dollars that they happened to have in their Treasuries.

Senator Wiley. Did not some of our loans to them make that possible?

Mr. McCloy. In the most indirect form, but it is such a small item that they all had some that they could draw on without looking to any particular contribution from the United States at that point, sir.

Now, as I say, all of the countries have contributed in their currencies this eighteen per cent subscription; that is, as you see, \$1,487,358,000. That is the total paid-in capital.

The great bulk of the subscription, the 80 per cent of the subscription, the 80 per cent of that \$8,263,000,000 figure that

Senator Thomas just referred to, is never, under any circumstances, available for lending. It only stands there as a sort of guarantee fund for the obligations of the Bank. It can be used only for that purpose. It can be used for no other purpose. That is to say, it is excluded from the possibility of lending.

Senator Connally. You mean the eighty per cent?

Mr. McCloy. That is just a bulwark and the security for the obligations of the Bank itself. The only theoretical lending funds are those which are composed of the two per cent in subscription and the eighteen per cent subscription.

Senator Wiley. How much of the eighty per cent did we subscribe?

Mr. McCloy. We subscribed \$2,540,000,000. That is the next figure in the line. And the other countries subscribed \$4,070,480,000.

Actually, the only dollars that we have available for lending, as you can see, are the two per cent paid in by all of the countries plus the eighteen per cent subscription of the United States, a total of \$736,762,000. That is the total available capital of the Bank for lending purposes at the time of its organization.

In addition to that we have also sold a series of bonds-- \$250,000,000--and you can see from the capital structure of the Bank that the bulk of the funds of the Bank for lending purposes have to be obtained from the market. They are not obtainable from

the capital in any such quantity as to make a real impact on the situation. We have to go to the private investing market, convince them that we have a security that is a good security, that will compete with other securities for their favor, and it is in that field that we have to look in the main for our lending capacity.

We have sold one issue of \$250,000,000 of bonds.

The Chairman. Is there a limit on your bond rights?

Mr. McCloy. There is a practical limit of the amount of the capital.

The Chairman. No statutory limit?

Mr. McCloy. We can lend up to the amount of our capital, but we can not exceed it under our Articles.

Senator Connally. What interest do you pay on those bonds?

Mr. McCloy. We have sold two issues, one of twenty years and one of ten years. Three per cent was the interest we paid on the long term and two and a quarter was the interest we paid on the short term. That issue was a success. It was over-subscribed very heavily. That was six months ago. In the meantime the bond market--Mr. Black, who is the American Executive Director on the Bank, who was also called to appear before you, is a market expert, and he can talk to you in more detail about the conditions of the market. I think I can say, as everyone knows, that since that time the market has gone down. The bond market generally is following a different trend. The talk of inflation and other considerations has begun to operate upon the market, and now our

bonds are selling not at par or above par, as they were at the time of the issuance, but down around 95.

Senator Connally. You mean those 3 per cent bonds?

Mr. McCloy. Those are down around 95. But they have not fallen below the general fall of bond prices. Bond prices generally have declined in that period.

Senator Thomas of Utah. Are most of the subscribers Americans?

Mr. McCloy. Yes. We have some foreign subscriptions, but in the main they were insurance companies and savings banks and commercial banks in this country. Some of the orders were for foreign account. They were sold all over the country. But in the main I should say the bulk of the investors were insurance companies and the savings banks who by law are entitled or authorized to buy these securities.

Now, to come back to the chart, that shows that we had \$986,762,000 available for lending. Of that \$986,762,000 we have already lent \$497,000,000. The balance of dollars available for loans is \$489,762,000.

The Chairman. Plus a potential--

Mr. McCloy. Plus a potential.

The Chairman. --when you sell additional bonds.

Mr. McCloy. That is right.

Senator Connally. You do not mean you got that in cash. You have that in available sources,

Mr. McCloy. We have that in available sources. We can call on the United States Treasury for its subscription in accordance with the authorization that you gave the Treasury in the Bretton Woods Act. We have some in cash, but in the main we simply put in calls on the Treasury when we need it. Although this other 18 per cent in currencies is subject to call for lending purposes, today nobody wants to borrow anything but dollars. No one is particularly interested at the moment in borrowing francs. The situation in the world is such that the demand is for dollars. But to date the only country that has consented to the use of its 18 per cent for lending purposes is the United States. There is one minor exception to that.

Each country must consent to the use of its currency before it can be lent out. Belgium the other day permitted us to lend some Belgian francs to Luxembourg. But in each case we have to get the consent of the country that subscribes the money, the consent of the subscribing country, for the use of its 18 per cent, and today the only country that has consented to that outside of Belgium is the United States.

Senator Thomas of Utah. May I ask a question there? There are one or two countries, like Panama, where their balboa is pinned right to the dollar. Is there no application for borrowing Panamanian currency? I am using that as an example.

Mr. McCloy. There has been no demand for the use of Panamanian currency for lending purposes. There may be in the

course of time through the South and Central American area a desire on the part of some country to borrow the currency of another one of those countries. To date that has not eventuated.

Senator Thomas of Utah. The trade is not such that even those nations that are pinned 100 per cent to our dollar---

Mr. McCloy. There has been certainly no request for Panamanian currency on the part of any borrower.

Senator Thomas of Utah. Guatemala is the same way.

Mr. McCloy. The same way.

The thing I want to stress is that although the United States guarantee here of \$2,540,000,000--and that is a guarantee in a strict form; it is a joint and several obligation; it is an obligation as it is in the case of every country to pay that amount to meet any deficits in the Bank's own obligations--irrespective of whether any other country meets its obligations, good up to the limit of the guarantee. In spite of the fact that we have a guarantee of that size behind the issuance of our bonds, there is an act of volition involved in the raising of our money. We can not compel any investor to take bonds, nor can we tax him, nor do we have any fund beyond our capital which we can draw on. The result of that is, even if we did not have a provision in our charter saying that we must be reasonably certain of the means of repayment, we would have to make, and can make, only good loans, because it is the investors, like the insurance companies and savings banks, who come down and take

a look at our portfolio, and they examine the prospects of the payment in order to make up their minds whether our bonds look as favorable to them as, we will say, A. T. & T. bonds. So that our loans have to be hard loans, good loans, not questionable ones.

Senator Wiley. Have you a list of the loans made?

Mr. McCloy. Yes. We have loaned to date to four countries: France, Holland, Denmark, and Luxembourg.

The Chairman. Are these loans to governments?

Mr. McCloy. They are to governments or they are to institutions like governmental agencies, similar to our RFC—the Credit Nationale in the case of France. In each case when we make a loan we must get the guarantee of that Government, although we can lend to an individual, a government, or any agency, any private enterprise in any country, except that we have to have the government guarantee on that obligation before we can lend.

We can also guarantee obligations. We can stand by; we can underwrite. But we always have to have that back-up of the guarantee under our charter or we can not function.

The Chairman. This is what I do not understand, Mr. McCloy. Under all those circumstances, your bonds are backed by the most astounding formula of security that exists in the world, your bond in the first instance has the total warranty of the borrowing government, it has paid-in capital stock, it has a contingent promise of the United States of America itself up to \$2,000,000,000,

why do such bonds sell below par?

Mr. McCloy. Well, why did a government bond ever sell below par? It has sold below par in the past. They are hovering about par now.

I agree with everything you say about the security of the bonds. But still we are in competition for the funds of these various institutions with a great many other bond issues that are excellent also.

The Chairman. In addition to that, you are paying three per cent.

Mr. McCloy. We are paying three per cent, yes.

I believe there is no question in the minds of the investors of the value of the security of the bonds. But the bond market is dependent not only upon the security of the bonds, it is dependent upon the amount of capital that is available.

Mr. Black, do you want to add anything to that?

The Chairman. There is no shortage of capital available.

Mr. McCloy. There is talk of a shortage of capital today, Senator. At least we hear it a great deal from the insurance companies and banks. They talk about demands on their funds, and I think there is evidence of some shortage of investing capital.

Do you want to add anything to that, Mr. Black?

Mr. Black. I think I can explain partly why they are selling at this price in comparison with government bonds.

In the first place, at Bretton Woods there was a failure at

that time to set up a vehicle by which we could sell our bonds, and that bonds would be eligible, as many investments, as government bonds are, for example, in a good many states. We had to go all over the United States to get special legislation to legalize our bonds for savings banks, insurance companies, and trust funds. In a good many states our bonds are not legal for insurance companies. In some states they are not legal for savings banks. For example, national banks can invest only ten per cent of their capital and surplus in our bonds, where they can invest any amount of money in government bonds. So that our bonds haven't the same exemption so far as banks are concerned--national banks, state banks, or insurance companies. That is one of the reasons they sell at what looks like a very low price as compared to government bonds.

Mr. McCloy, To come back to the question you asked, Senator Wiley, about the loans that we have already made, we have made a loan of \$250,000,000 to France, \$195,000,000 to The Netherlands, \$40,000,000 to Denmark, and \$12,000,000 to Luxembourg. We have many other applications, and we must bear in mind that the Bank has to take care of forty-six nations, not sixteen. And we have a provision in the Articles that we must make an equitable distribution in the funds that we have between reconstruction and development. The implication there is that we have to move into the undeveloped areas of the world as well as in the areas that were devastated by the war and are to be reconstructed.

Senator Connally. Have you any data there to show what this loan to Luxembourg was for?

Mr. McCloy. We have data regarding all of the loans. The loans for Luxembourg were primarily for the reconstruction and improvement of the steel mill in Luxembourg. That is their main economy, as you know, and it has a very key spot in that area of the European economy.

Senator Connally. That is a productive loan.

Mr. McCloy. It is a very productive loan. We must have productive loans or we can not stay in business. That is, I think, true of all the loans that we have made.

Senator Connally. You will probably get that money back.

Mr. McCloy. I believe we are going to get all of our money back.

Senator Connally. That is a very frugal country. They will pay you back.

Mr. McCloy. We must by our charter, as well as by the necessity of appealing to hard-headed people who are responsible for the savings in this country, convince them that their money will be paid back.

Now, in the case of France and Holland, our financing went to things like locomotives, steel rails, steel for the building of bridges, some stocks of raw materials which I think you can say were capital stockpiles, and in the case of Denmark we financed some of their agricultural equipment, which is an industry which

in that country is very prominent, and I believe some dairy equipment, which is another field in which they are very skilled.

That is about the picture of the Bank. There is one other aspect on which I would like to dwell, and that is the emphasis that we place upon following the proceeds of our loans. We have an organization to see that the proceeds are dispensed in the manner in which they were approved. We follow the actual loan, and if there is any diversion they must have our consent before it is diverted. I think this is a very beneficial provision. We had a good bit of talk at the beginning about an infringement of sovereignty, but it was pretty apparent when the entire facts were laid on the table that it was no infringement of sovereignty; that it was to the interest of the recipient as well as the giver of the loan that the fullest information be let in on this subject, if not for the purpose of seeing that no penny is ever wasted, because you can not see that every penny is effectively used in enterprises of this scope, but to learn what the results were, to learn more about this whole international aid business; to avoid, if possible, I think, the unfortunate consequences, if I may say so, of the English loan, where I think the lack of immediately available information as to how the proceeds were used tended to obscure the real effectiveness of the loan on both sides of the water. I think on both sides of the water people got the feeling that that was an ineffective loan largely because they did not know what it was being used for.

I think that aspect of the Bank's operations may be something that may be useful for you gentlemen in determining what the form of the economic recovery program should be.

The Chairman. Most emphatically. Is that process you now describe the result of any statutory language in your Charter or in the law under which you operate?

Mr. McCloy. No, it is a matter of policy that we have adopted. It is an implication, I think, of the fact that our loans must be productive, which is a statutory requirement, and we have to see, if they are to be productive, that they are productive; and we have to see that they are not diverted for purposes for which we have not approved them.

That does not mean that you have any police method over it, but it means you have a freer chance to inspect the books and to see how the money is going out and to see the results that the money achieves.

The Chairman. That one single protective device put into ERP would do more, I think, to satisfy American public opinion than any other single thing I know of.

Mr. McCloy. I must say I heartily subscribe to that, and I think that the recipients themselves, from the point of view of their own self interest, should be the first to insist upon it.

The Chairman. In other words, you have demonstrated that it can be done by mutual consent effectively.

Mr. McCloy. That is right, without any infringement of

sovereignty. That is a fantasy that I do not think any longer exists.

Senator Connally. Let me ask you, Mr. McCloy: Do you give them all the money when you make the loan, or do you give it out as they progress under this supervision about which you are talking?

Mr. McCloy. We have adopted the policy in the Bank of making what we call successive advances.

Senator Connally. That's right.

Mr. McCloy. We judge the amount of loans that we are going to render on the basis of progress which is made.

The example that I think we had in the French loan may be interesting on that. The French applied for \$500,000,000. They said they were about to put through certain reforms, and they were attempting to balance their budget, and we could see the importance of that. We did not want to hold back until everything was done before we came in, because when credit is already established you do not need any more need of the Bank. But we told them we would not give them \$500,000,000 until they gave some evidence of what they could do. We gave them \$250,000,000.

After that loan was made the effects of the drought came in, the budget was not balanced and other steps were not taken and could not be taken at that time, so we gave them plenty of notice of the fact that the second \$250,000,000 could not, in our judgment, be at that point lent, and at the same time we would conform to the provisions of our statutes and policies with respect to our

loans. Since that time the French have been making very strenuous efforts toward putting their house in order, and I think that again is a healthy procedure to follow.

The Chairman. Do you know of any reason why a comparable system should not operate in ERP?

Mr. McCloy. No, I do not know of any reason why it should not.

The Chairman. It may not be totally on all fours, because obviously there have got to be a few speculative latitudes in ERP which do not exist in your existence.

Mr. McCloy. I think there must be in ERP. There are two things; there are grants and there are loans. My suggestion would be, if I could be so bold as to say, when you make a loan, make a loan. Do not make a fuzzy thing. It is either a grant or a loan. Because a loan, if it is called a loan, even though you have some thoughts that maybe some day it may not be repaid, stands there as an element of difficulty always in international relations, probably even in individual relations, and if it is not repaid, if it stands as a loan, no matter how half-hearted a loan, it precludes private capital from coming into the picture, because there is a dollar sign there ahead of it, or an obligation ahead of it. So it tends to discourage equity capital; it tends to discourage private capital to want to move in that same field. It does not do the investor any good to be told that, "well, maybe sometime in the future the United States may forgive that." It still stands there as a charge upon their dollar exchange and their transfer obligations.

The Chairman. But the thing that interests me, Mr. McCloy, is that you have successfully established a system under which we can follow our dollars abroad.

Mr. McCloy. That is right.

The Chairman. And see that we are getting our money's worth.

Mr. McCloy. That is right.

The Chairman. And if that could be at the base of ERP, admitting the wider speculative latitudes involved, nevertheless if a system of that character could be at the base of ERP, I think that half of the criticism of it would disappear.

Mr. McCloy. I think I probably have sketched out as much, unless, Mr. Black, you think of something else in connection with the Bank, as I would care to say about the Bank, unless there are some further questions.

I would like to say a word or two about the European Recovery Program as a whole.

The Chairman. Before you leave the Bank, there is no place that the Bank can tie into ERP except at the last stage, where a specifically sound project is available for your attention?

Mr. McCloy. That is right.

The Chairman. You can not be counted as one of the available resources in the initial process of this program, is that correct?

Mr. McCloy. Yes. Nor as a distributor of large relief money.

It must be a businesslike project where we can see productive returns.

The Chairman. If ERP makes only the kinds of loans you are talking about--in other words, you say "Let's not have fuzzy loans; let's have loans that are loans"--why would not the World Bank be eligible to consider any such loan which was not fuzzy and which was a loan?

Mr. McCloy. We would be able to consider any such loan and we would give consideration to it. We might, however, not have enough money to meet all of the good hard loans that may be needed, because of our dependence on the market--well, for that reason or because of the demands that we have throughout the world, and I want to keep emphasizing the fact that we have forty-six nations with which to deal, not sixteen. We are in Eastern Europe, Western Europe, South America, Africa, Asia. We are everywhere but Russia.

I will not be long on the European Recovery Program. Naturally, the European Recovery Program parallels the objectives for which the Bank was formed, and we are very glad to see it moving in this field because we feel that it will aid the Bank. To the extent that equity money is put into the European scene, naturally it builds up our position and makes it possible for us to make loans with greater certainty of repayment, and generally gives us the basis for an economy upon which we can soundly loan. If there isn't something done under the present critical condition of Europe I doubt very much whether we would be able to make any more

loans to Europe for a considerable period of time. I think to a large extent the future of the activity of the Bank is dependent upon some general reorganization of the European economy which the European Recovery Program is designed to bring about.

I would like to say also something about the general picture. I think that what was said here before by some of the witnesses that have appeared, about the strength of this area, should be emphasized. Here is the vast area, 270,000,000 of people, before the war probably the most productive area on earth; certainly now the second most productive area. Its production compares very favorably--in fact it outdoes that of the United States in a number of respects before the war.

It has tremendous reserves of technical skills, resources, know-how; but above that certainly are the reserves of culture and political maturity and decent living, free living, which obtain probably nowhere else in the world except in the Western hemisphere to the extent they do in the areas with which we are dealing. So that it is an objective, I think, well worth attaining, and I suggest that the real reason for the recovery program is the strength of Europe rather than the weakness of Europe.

The fact that it does have great strength and still possesses great strength I think can be evidenced by the progress which they have made since 1945. I traveled in Europe a good bit in '44 and '45, during the course of the war and again at the end of the war, and I went back last fall to go through again, and I was perfectly

amazed at the amount of recovery that had taken place in the meantime. Every marshalling yard in Europe was a sort of gravel heap when I was there before. They were all operating; if not all operating the railroad system was restored, trains were moving. Where they got the locomotives from and how they repaired them I don't know, but they did.

Senator Connally. You are speaking of Europe generally now?

Mr. McCloy. I am speaking of Western Europe. I am not speaking of Germany at the moment, I am speaking of Western Europe, exclusive of Germany. But in respect of Germany there are some other things that have to be said.

But I am talking about France and England, Belgium, Holland, and that area. The extent to which the Dutch have reclaimed their land and gone about the recuperation of their economy is really extraordinary, considering the loss of the Indonesian exchanges and the great devastation which the occupying armies did there to their economy, and the loss of the English and the German markets, to a large extent.

The Scandinavian countries were also hit, some of them, by occupation. Belgium's recovery was amazing. But France, which is perhaps pivotal in the whole thing, showed a recovery which was very great indeed. It was most marked. And I think that is, first, evidence of the recuperative power and vigor of these people, and second of the effectiveness of aid as well, because there was a very substantial contribution made in the form of UNRRA, Lend-Lease

credits, and surplus property, and the English loan and what-not, which went along with and paralleled these efforts. But there I think you have before your eyes the evidence of what can be done with the reserve strength of this area and the application of some aid.

Now, much has been said about the mismanagement of affairs in Europe, the controls and the general obstruction to economy. But I think that in that we lose sight of the fact of what many of those countries have done toward, let us say, balancing their budgets. They have taken some very drastic steps and very unpopular steps, or difficult politically, let us say; let us not say "unpopular" steps to take because they are more popular after they are done. They have made substantial progress, in my judgment, toward putting things in order.

There is a great field yet to be covered. There are many mistakes that have been made which will have to be remedied, and I think that without a movement in that direction, and a strong continued move in that direction, your aid will not be effective. It is extremely important, in my judgment, that they should stabilize their currencies, that they should balance their budgets, that they should break down trade barriers. I think the tendency is to do that. I believe there is a greater spirit moving in that direction than there has been before, and the comforting thing is that it is being looked at collectively. The collective assets of Europe are really enormous. If we can get them thinking about their economy as a whole I believe their resources will be

greatly increased and magnified.

I do not think it is appropriate for me, as the head of an international body, to be suggesting how the United States should distribute its favors, particularly since we are a recipient of its favors, and I certainly would not think of talking about how you ought to set up your administrative agency here. But I do think I can say something about how the Europeans should organize. My feeling is that the more responsibility you throw to them, the better. They have a very difficult problem to achieve. It is much more difficult for an outsider nation to try to achieve it for them. You can not devalue their currencies; you can not balance their budgets; you can not adjust their price systems. They have got to do it, and they have to do it themselves and they have to do it with some collective consideration of the whole European problem.

So I would urge strongly that they be given heavy responsibility through a European agency or group to bring about these developments--stabilization, if you want to call it that--and the progress which they make toward that should be a measure of the amount of aid that is eventually given.

Senator Connally. This morning's paper carries a report that they are postponing and delaying about tightening up this international organization. It seems to me it ought to be a continuing organization, and there ought to be a central committee or somebody in that organization to put the heat on all the countries and have

some coordinated action.

Mr. McCloy. I would say, put some pressure on in the sense of making it clear to them that the eventual amount of aid that is to be given is not conditioned, but it is generally to be understood that progress toward these things is a measure of the amount of aid that is apt to be made available, and the Administrator ought to be able to have the power to see that if reasonable progress is not being made that he could tell them so, and perhaps cut it off.

Senator Lodge. Do you think there should be language in the Bill to which the Administrator could point as showing that this Government was hopeful--

Mr. McCloy. I would hate to have it too specific or anything like a condition; perhaps maybe in the preamble of the Bill, so that its general purposes should be clear before them might be practical. I would not pin it down to particular production figures. You can not jiggle their elbows while they are trying to do such a big job as this. But general progress in the direction of these things is certainly a measure, because without it aid will not in the end be effective.

The Chairman. I would like to get a little closer to the realities than a preamble.

Mr. McCloy. General language rather than specific, Senator.

The Chairman. What is the objection, in general language, to asserting the basic principle that the continuity of our

cooperation is contingent upon the continuity of progress in the direction toward which LRP aims and upon the continuity of the achievement of the results promised in the bilateral agreements?

Mr. McCloy. I see no objection.

A word as to figures. We are in the business of international aid, and naturally when this so-called Marshall Plan was first promulgated our technicians began to work on it. They had figures which have been supplied to them from time to time or which they have gathered from time to time. We have some contacts with agencies of the United States Government.

I think I should say that our staff, in my judgment, is an objective staff. It is composed of many nationalities. They do not act as representatives of their respective governments. Their loyalty is entirely to the Bank. They are paid by the Bank and they have no direct contacts with the governments of which they may be natives. And they are talented. They come from all over. They are the best brains we can get on the subject.

They have examined the figures of the various estimates which have been made, and I think that probably I should say that in respect of the proposed figure for the first fifteen months--and I do not believe it is of much use to make estimates beyond that, or at least when you get to four-year periods you are in the realm of guesses rather than estimates--we feel that the figure that the Administration has put forward is certainly not an extravagant figure. We feel, indeed, that it is a rather tight fit, considering

the objectives that you want to obtain.

I think our figures would, if we had to submit an estimate, be somewhat higher, and higher mainly, I think, because we are not so sure that the exports are going to be as great as they are estimated to be. Bear in mind that exports involve a buyer as well as a seller, and also, since their import situation is so restricted, we have some doubts that the austerity that is involved in shipping all of their products abroad can be long maintained.

I do not say by any means that the figure that the Administration has put forward is inadequate. You can not say in terms of that size whether things are absolutely adequate or inadequate. I do want to give you the fact that our technicians think, as they put it, it is a rather tight fit.

I think I probably have said as much as, or probably more than, I should have said.

The Chairman. You have been very helpful, Mr. McCloy.

Senator Connally?

Senator Connally. You indicated a while ago that you should not express any views too strongly on this thing. The mere fact that you are paralleling this, that you are in the same field, renders it all the more appropriate, according to my view, that you do tell us about it. You have had some experience. And this whole plan, of course, as you suggest, is incapable of certainty. You can not estimate right down to the gnat's heel how much it is

going to cost and how much it is going to produce and how much production and exports and imports and all that will be realized. It is an experiment, in a way. But we think it is very fine.

I want to congratulate you, because you have given some very sound and very wise advice about the matter.

Now, with regard to following the money advanced to them and seeing what they do with it, this would be much more difficult with regard to this relief plan than it would be in your case, where you make a loan for a specific purpose?

Mr. McCloy. Yes.

Senator Connally. It would be pretty difficult to follow it very far?

Mr. McCloy. Yes.

Senator Connally. I think we ought to have all the supervision that we can reasonably get, but I can see that it would be much more difficult to trace it down.

Mr. McCloy. That is right.

Senator Connally. I call these "progress loans." We have in many sections of the country banks that will make loans to farmers, we will say, or to someone, and instead of giving them credit for all of it they give it at the rate of \$10 a month, or \$20 a month, as they progress, which makes it possible for them to get by, whereas if they gave it all to them at once they might squander a lot of it and come back for more. I do not know whether that is true

in all sections of the country or not, but some language like that is what you had in mind?

Mr. McCloy. Yes. It has to be pretty general in the relief zone. It can be more specific in other zones. But there ought to be an organization which is there that people can go to to see, perhaps only in broad lines, what is being done with the money, not with the idea of pinching each penny--you can't do that--but of learning something of what progress you are making and learning a little more about this international aid business which we still do not know very much about.

Senator Connally. And also for the purpose of learning whether we want to have any more or not. If they are not making appropriate use of what has been granted to them under this bill, the Administrator or the President or somebody could cut off any further assistance. I think that is highly important, of course. These folks have got to learn that this money is hard to get. It is a sacrifice on the part of the United States that must be limited in its expenditure to the objective we have in mind.

I want to congratulate you on your statement, Mr. McCloy. I think you made a fine statement. I know from my acquaintance with you when you were here in the War Department that you would give us a good, well-considered plan. I think you are a much better Government official than you are a fisherman!

Mr. McCloy. I challenge that.

Senator Connally. Having been with you on one or two fishing

expeditions.

Senator Barkley. If he thinks you are a bad fisherman, you must be awful!

Mr. McCloy. I am taken aback by that.

The Chairman. We will come back to the Bill. Senator Wiley?

Senator Wiley. Just a few questions.

In relation to this administration, I think you have made a very fine contribution. But I would like to get your ideas as to the administration on this side. I have in mind this problem that we are constantly facing, and which my correspondence shows even the ordinary citizen is very much concerned about, and that is the way that, when the Government reaches out to have something done or to buy something, price does not seem to be a consideration.

Now how, on this side, for it is here we are going to need it, can we get a dollar's worth of the stuff that we want for every dollar that we spend, and do not spend three dollars for it?

Mr. McCloy. Are you touching on the domestic price situation?

Senator Wiley. I am talking about the administration of this job. We had charts showing the in-betweens. You give us suggestions as to how to get appropriate administration in Europe. Now how do we get appropriate administration over here? You know, when you get the sum of \$6,800,000,000 which they are asking for, shoving it out here and shoving it out there to buy, I would just like to have a few concrete suggestions as to how to get results.

Mr. McCloy. Well, that is a pretty difficult thing for me to

talk about. I have some experience in procurement, a little experience in procurement, in connection with the war effort. I have that experience as an American citizen, not as the head, an officer, or an official in an international bank. I think you ought to excuse me, if I may say so, from commenting how the local administration ought to be set up. It means, Where does the Secretary of State fit in, and the State Department? It depends upon how politically you look at this rather than how economically, and I am afraid I would be in pretty deep water if I were trying to get into that field.

Senator Wiley. You said you were a fisherman. Let's fish.

Mr. McCloy. I really do not think I can talk much about that.

Senator Wiley. In your language, I want effective procurement.

Senator Connally. I do not think the witness ought to be pressed if he does not desire to answer the question.

Senator Wiley. He does not need any defenders, sir. He can look after himself.

Senator Connally. He has one, whether he wants it or not.

Mr. McCloy. I do think there are such local domestic political implications that enter into how you set up the local administration that it would be rather inappropriate for me to try to comment on it.

The Chairman. I think that is true, Senator Wiley.

Senator Wiley. I appreciate, now that it is unanimous here, that that answer is probably correct. I am very much concerned

about the answer anyway, I can tell you that.

Now, are you willing to comment in relation to the amount that you think might be appropriate? You have already stated that \$6,800,000,000 might be the appropriate amount for the first fifteen months. In view of your traveling through Europe, and in view of your getting a personal picture of that situation over there, and in view of the billions that we have already spent, and in view of the constructive result that has been obtained by virtue of that--and I think you will admit that our aid to Britain and other moneys that we have put into Europe has had a most constructive effect upon the result that you saw there--in view of all that, how much of this \$6,800,000,000 do you think could be put into good loans--as a banker says, good loans. And how much has to be outright grants?

Mr. McCloy. I feel from my observance of the scene that the bulk of it would have to be in grants. How much in grants and how much in loans is something that I do not believe is capable of any worth-while analysis.

Senator Wiley. Guess or estimate?

Mr. McCloy. Analysis, at this point. How do you tell? A loan comes into the Bank for \$600,000,000 or \$500,000,000, and before we can break it down to figure out where the markets are going to be supplied by that plant and how the plant is going to operate we have gone through a pretty heavy process. And until you do go through that process you really do not know.

But taking a look at the general picture, I would say--and I would not want to guess in terms of percentages, because it would be guessing--that the bulk of it in my judgment must be grants.

Senator Wiley. I had hoped that you would, in view of what you thought was the optimistic picture there, come to some conclusion to the effect that some percentage, and you say a small amount, would be for what you might call recovery loans.

Mr. McCloy. There will certainly be some recoverable loans, but I think certainly in the first year the tendency should be toward grants rather than loans.

Senator Wiley. Have you any judgment as to how much this Government can afford to grant over a period of four years, if you want to state?

Mr. McCloy. I think I ought not comment upon what the United States can do domestically. That is a United States affair, and I have the hat of the Bank official on my head. I do not think I ought to comment on the possibilities. You have better experts than I that can tell you what the economy of the United States can afford.

Senator Wiley. Just one other question, and it, I think, has been covered by comments by the Chairman here. I want to see that I fully understand your position. It is this, that in the loans that you make, you feel that in making a loan, like any good banker, where it is a substantial loan you must have constant contacts or check on how the loan is disbursed, how the loan is operating, and

what the results are. And you feel that in ERP, whatever administrative mechanism is set up over there, in the interest of the lender as well as the one who receives a similar mechanism should be put into operation, am I right?

Mr. McCloy. Yes; in the interest of both the lender and the borrower. I emphasize the borrower's interest as well as the lender's, otherwise you would have the experience you had in the English loan, where even the taker did not think he was getting much, and he was getting a very good deal.

Senator Wiley. You have had that experience?

Mr. McCloy. I did not make any loan to England, but I have observed comments on both sides of the water in respect of the English loan, and I think if we knew more about how money flowed these comments would not be as prominent as they were in that case.

Senator Wiley. From the standpoint of banking psychology, is it not best for the borrower and best for the lender for the borrower to know that the eyes of the lender are on him, to see that he keeps faith with the undertaking?

Mr. McCloy. I agree.

Senator Wiley. That is good between nations and it is good between individuals?

Mr. McCloy. Yes, sir.

Senator Wiley. That is all.

The Chairman. Not only faith with the undertaking but faith with the undertaker!

Senator Barkley?

Senator Barkley. I am sorry I was not here through your entire statement, Mr. McCloy. I had other official duties that called me.

Maybe you have already answered this question, or commented on it. If you have, just say so and I will get it in the record.

The field covered by this Bill is one beyond the field covered by the International Bank. In other words, your Bank could not take up this effort here in the sense in which we are undertaking it.

Mr. McCloy. That is right.

Senator Barkley. I suppose it would be possible that in any country that received benefits under this Bill, even though it were a grant to the Government, your Bank could make a loan to a specific project if it qualified under the rules entitling it to a loan?

Mr. McCloy. Yes.

Senator Barkley. And the fact that the Government had received the grant for purposes contemplated in this legislation would not preclude either a city or a private corporation from obtaining a loan in your Bank if it otherwise qualified to obtain it?

Mr. McCloy. In fact, I think I can say it would probably enhance the possibility of giving the loan, because it would tend to give a basic support to it.

Senator Barkley. It would tend to stabilize the situation in

the country which would militate in favor of a loan if it otherwise qualified?

Mr. McCloy. Yes.

Senator Barkley. I think that is all.

The Chairman. Senator Lodge?

Senator Lodge. I have a few questions I would like to ask. First of all, in common with the other members of the committee, I am much obliged to you for your statement. I think it has been very helpful, and if I should ask anything that for any reason you do not want to answer, please say so and I will drop it. I do not want to embarrass you at all. I want to get the benefit of your judgment.

I noted with agreement that you spoke about the vast area in Europe and the elements of strength which it contained. Of course it is true, is it not, that if it is to be really strong it has to be treated as an area, and it has to act as an area?

Mr. McCloy. I think so.

Senator Lodge. That is true, is it not?

Mr. McCloy. Yes. Certainly you get the best results, in my judgment, when you take the collective assets into account, rather than a series of individual ones.

Senator Lodge. And is it not conceivable that even if the ERP achieved a temporary revival of European activity, if at the end of that period Europe relapsed into sixteen water-tight, quarreling compartments we would be very badly off?

Mr. McCloy. We would be relapsed.

Senator Lodge. We would have relapsed, would we not?

Mr. McCloy. Yes.

Senator Lodge. I was pleased that you spoke about putting -- I think your words were -- heavy responsibility on the nations of Europe to promote this integration themselves. And I also noted your statement that their progress in that direction should be a measure of the amount of aid that they should receive.

If we put into the bill a statement of the hope of the United States--nothing stronger than that, but just our hope that this unification would progress--and it was known to the nations of Europe that we felt that way, do you not think that would have a salutary effect?

Mr. McCloy. I think it would.

Senator Lodge. I agree that to set up any set of detailed conditions which would be conditions precedent to receiving aid would not be practical. But for them to feel that we over here were watching that thing, and that we felt it was an historic opportunity to lift the whole of Europe out of its morass, might that not have a healthy effect?

Mr. McCloy. I certainly think so. I feel that if we could move in that direction there would be less chance of Europe's being a breeder of wars. I suppose if we could reach that condition it would not be worth \$6.8 billion; it might be worth sixty-eight.

Senator Lodge. Yes, exactly.

Senator Wiley. You mean if it were effective--not merely preach it, but make it effective.

Mr. McCloy. Oh, yes, something more than intentions, yes.

Senator Lodge. If we are to have this integration, the elimination of trade barriers is at the bottom of it, is it not?

Mr. McCloy. It certainly is one of the elements.

Senator Lodge. And with Holland, Belgium and Luxembourg already in an agreement, is it not true that if you added the United Kingdom, France, and Italy, you would then have an arrangement that held out real hope for the future, if those three nations were in it?

Mr. McCloy. The more nations that are in it, the better. I think that we do not realize, perhaps, how far they have gone already in that direction. There is the Be-Ne-Lux, which is very prominent, of course. I notice there are some discussions now going on between France and Italy for a breaking down of their trade barrier. This recent multilateral agreement arrangement in Basle, which I think not only Be-Ne-Lux, France, and Italy, are involved in, but I think the English and the Danes and the Swiss have at least sent observers down, is another illustration. It may not be a major development, but it is along the right line. That is a sort of a clearing house arrangement that they are setting up there. It isn't very big as yet, but they are moving in that direction.

Senator Lodge. Is it possible, though, to have effective elimination of trade barriers in Europe without the United Kingdom?

Mr. McCloy. That is a large question, whether it is possible. I think it might even be helpful without. I can see many difficulties if England is not in. It is hard for me to say "Yes" or "No" to that question.

Senator Lodge. Because some of us who have studied this thing are constantly being mystified by the British attitude on the matter. We read Churchill's statements in favor of the United States of Europe, in favor of a common citizenship with France; and then we read other things that indicate a great lack of enthusiasm for it, and we do not know whether the United Kingdom is a part of Europe or whether it is not.

Mr. McCloy. I think I had better not comment on that.

Senator Lodge. All right.

Are you in possession of any data in the International Bank which we could use as a basis to check the data which have already been furnished to us with respect to the needs of the European nations?

Mr. McCloy. I think we may have some figures that might be helpful. Perhaps there are some figures, conceivably, that have come to us in the confidential relationship of banker and client, but I think that even taking that into account, we probably could give you some figures in general terms that might assist you.

Senator Lodge. Mr. Chairman, I think any figures that we

could get that would serve as a yardstick for the figures we already have would be useful.

The Chairman. I quite agree.

Senator Lodge. I have been very much concerned with the matter of follow-through on the administration of this European Recovery Program, of setting up a really effective inspection system. As you well know, in the Army a fellow gives an order one day and the next day another guy is out to see whether the order is being carried out. Do you think that in this Bill as it stands there is what is needed to really police this program and see that it works and that people are on their objectives?

Mr. McCloy. I am afraid that I am not familiar enough with the provision you refer to to express an opinion on it. I expressed the generality that there ought to be an organization which can follow through and in my judgment ought not only be Americans, it ought to be Europeans as well. My experience is that when you get these Europeans, or anyone else, any other nationalities, involved with a sense of responsibility and a lack of sense of representing their governments, you have a very objective and thorough job done. In fact, they know more how to do it than we do.

Senator Lodge. That is a very interesting and important point. And I think that point is borne out by the experience that

we have had in the administration of foreign relief, because under one type of foreign relief, with European bureaucrats administering it, it was hugely wasteful, and another type of foreign relief, with European committees of selected citizens administering it, it was very economical. Have you not heard that?

Mr. McCloy. Yes.

Senator Lodge. So it is not a question of not having European personnel in this inspection, it is a question of having the right kind of personnel, selected on the right basis, and having the right kind of directives. Is that not true?

Mr. McCloy. Yes.

Senator Lodge. Here is a question you may not want to answer. Do not be bashful in saying so.

During the war you had a tremendous amount of experience in the War Department and with procurement and supply and Lend-Lease and all that. Was it your observation that abroad--I am not talking about in this country--the fact that Lend-Lease was an independent agency caused confusion and duplication and division of authority with the American ambassadors?

Mr. McCloy. I do not think that the administration of Lend-Lease caused any serious embarrassment with the political side of the Government, no. I should say not.

Senator Lodge. Thank you very much, Mr. McCloy.

The Chairman. Senator Thomas?

Senator Thomas of Utah. Mr. McCloy, I would like to pursue a

minute or two the collective ideas you have put before us, because I firmly believe, from what you have said, that we may have out of your own experiences with the Bank that you are now heading the key to many of the problems for bringing about recovery in Europe.

First you mentioned that you do not like to answer certain questions because you feel like you are under obligation to forty-four nations. That is exactly what we need to make this recovery program work in Europe. In other words, the moral strength which you have in making a loan, that comes from the fact that that which you say and that which you do is backed up by the will of forty-four nations, in theory, and the collective idea is constantly in your mind.

Now, in Europe these sixteen nations gathered themselves together. They went at this job of applying for loans, or, let us put it that way, or applying for relief, in a collective way. But some of the people in Congress are worried about the follow-through, whether we can project ourselves into a third year and a fourth year. It seems that the individual nation, for example, or the individual borrower, carried through as anticipated in harmony with the spirit of the whole aid program.

Now, the moral force of fifteen other nations, backed up by the real lender or the real giver, would surely add much to the success of the outcome, would it not?

Mr. McCloy. . I believe so.

Senator Thomas of Utah. Will it not make it possible to ask

for the right of, not supervision--I don't like to use these ordinary words because I know what nations are to deal with--but let's use the word "follow-through", because that hasn't got into any of the law text-books yet on sovereignty. The moral force, then, of our uniting sixteen nations to see that each individual lives up to the promises is a thing which is going to ultimately make this successful, is it not?

Mr. McCloy. I think so.

Senator Thomas of Utah. If, therefore, the united or the collective assets are the thing that makes the risk less, can we not build on that and make the collective idea run down to the day of payment, too?

Mr. McCloy. I think so.

I subscribe to all that you say, Senator, so long as we are talking about general progress, because you can not judge these things at any given point by a specific figure. It should be substantial progress toward these goals that should determine your decisions. What I am getting at is, I don't think there ought to be specific production figures or specific laws enacted as of a certain time in order to determine this progress.

Senator Thomas of Utah. What I want to do is to create an international capital in Europe which will convince the people of Europe that unity or collective action may result in a stronger Europe, and that is surely our fundamental aim, is it not?

Mr. McCloy. It is.

Senator Thomas of Utah. Now then, is it all right, therefore, to use your own experiences that you have brought to us today, which show the force of the obligation which rests upon you as representing forty-four different nations?

Mr. McCloy. Forty-six.

Senator Thomas of Utah. Can't we use that for argumentation purposes to show that we can probably make this thing successful if we get over the moral idea?

Mr. McCloy. I think there are some germs in the Bank's organization that could be applied to this, yes.

Senator Thomas of Utah. The problem is a problem of changing, in the final analysis, nations' habits, outlooks, and thinking. And that generally comes to nations as to individuals, when they find themselves in trouble.

What I would like to create here is a contrasting attitude between the pawnbroker who makes a loan and the real banker who makes a loan. Is a man who has been both a lender and a borrower--

The Chairman. You have not been a pawnbroker, have you?

Senator Thomas of Utah. I have not been a pawnbroker, but I know something about the business. I think the finest thing that is happening to that relationship is that we are getting farther and farther away from the pawnbroker notion, where the pawnbroker stays home and prays for default in the partnership function. By that I mean when I make a loan from the bank I like to feel that I can get something more than money, that I can go into partnership

with the experience of that bank and be led to a successful outcome.

And I believe banks are beginning to think that it is a good idea to know better the people where the money has gone.

This all seems ethereal and all the rest of it. But it has proved itself in banking history to be very practical, has it not?

Mr. McCloy. It has.

Senator Thomas of Utah. If it is practical, why can't we write this Bill in such a way that we can teach those lessons and have the follow-through of sixteen nations on each individual instead of just a follow-through of the United States with each individual nation? That is my hope and my aim.

The Chairman. Well, that is the objective, is it not, Senator Thomas--the hopeful objective--of the multilateral overall agreement, along with the bilateral agreements?

Senator Thomas of Utah. That is what I would like to see emphasized stronger, and I think we have had today out of Mr. McCloy the best type of argument to see that it is possible that it can be done.

The Chairman. Senator Capper?

Senator Capper. No questions.

The Chairman. Mr. McCloy, you said that forty-six nations were members of the Bank?

Mr. McCloy. Yes, sir.

The Chairman. The Soviet Union is not?

Mr. McCloy. It is not a member.

The Chairman. Did the Soviet Union participate at Bretton Woods in setting up the institution?

Mr. McCloy. Yes, they were represented up there and took a position, but eventually did not subscribe, did not join.

The Chairman. Are any of the Soviet satellites?

Mr. McCloy. You use the word "satellites." I will say that Poland, Yugoslavia, Czechoslovakia, generally speaking the Eastern European countries are members--I do not like to characterize them as satellites in my testimony--

The Chairman. I withdraw the word.

Mr. McCloy. Finland has just become a member.

The Chairman. Are there any other questions?

Thank you very much, Mr. McCloy. We are indebted to you.

The committee will be in recess until ten o'clock Monday morning, when Mr. Bernard Baruch will be the witness.

(Whereupon, at 11:35 o'clock a.m., the hearing was recessed, to reconvene on Monday, January 19, 1948, at ten o'clock a.m.)

Rec'd - SCA
Jan

FILE COPY

Miss P. Dermody

January 16, 1948

Martin M. Rosen

Congressional Hearings

Mr. McCloy may want the attached summaries to be in his files.

House Hearings 7

House Hearings 8

Senate Hearings 12

Attachments - 3

M.M.Rosen:rke

January 16, 1948

Dear Dean:

Herewith is a copy of a speech I made in Philadelphia last night, all of which I did not give but which is rather the result of my thinking on this ERP business.

I testified on the Hill this morning but had no prepared statement. A good bit of the high points of the speech I did dwell on. I also gave them a brief account of the corporate structure of the Bank, the amount of money we have available and how we raise money.

It is possible that some of the material in the speech might be helpful to your Committee.

Sincerely,

Hon. Dean Acheson,
Union Trust Building,
15th & H Streets, N.W.,
Washington, D. C.

Enc.

JJM:mel

File ERP

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Recom - E.C.A.

All Chiefs of Divisions and Loan Officers

January 15, 1948

C. H. Davies

Publications

One copy of the following pamphlets has been received by the Loan Department. If you are interested in seeing any one, or all of these, would you contact Miss Helen Austin, Room 402, ext. 2324.

The Economic Report of the President
transmitted to the Congress, January 1948

filed W.S.A.

Postwar Economic Studies No. 8: Federal Reserve Policy (Federal Reserve System)

filed Fed. Reserve

European Recovery Program: Estimated Deficits on Current Account of Participating European Countries

European Recovery Program, Volumes A-B, C, D, E, Commodity Reports Showing Physical Quantities and Values of Participating Countries' Exports and Imports

filed Marshall Plan

European Recovery Program - Commodity Reports (Including Manpower) on

- A. Food and Agriculture
- B. Fertilizer
- C. Agricultural Machinery
- D. Coal
- E. Coal Mining Machinery
- F. Electric Power
- G. Petroleum *
- H. Iron and Steel Including Steel Making Equipment
- I. Inland Transport
- J. Maritime Transport
- K. Timber
- L. Manpower

* Report not included - to be released at a later date.

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Publications

Page 2.

(Continued)

Bill, H.R. 4840 (Economic Corporation Bill)

Outline of European Recovery Program, (Draft
Legislation and Background Information Submitted
By the Department of State for the Use of the
Senate Foreign Relations Committee December 19, 1947.)

CHD: by dh.

15-1000 - E.C.A.
1/14

FILE COPY

Mr. John J. McCloy

January 15, 1948

Martin M. Rosen

Congressional Hearings

Attached are two summaries of House Hearings (Testimony of Ambassador Douglas on January 14 A.M. and P.M.) about which Mr. Stevenson spoke to you yesterday.

Attachments - 2

M.M.Rosen:rke

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Hushall
2/1/48

FILE COPY

Mr. John J. McCloy

January 14, 1948

Martin M. Rosen

Congressional Hearings

Attached is the summary of Secretary Krug's testimony before the Senate yesterday afternoon and a rough draft of Ambassador Douglas' testimony before the House Committee yesterday afternoon.

Attachments - 2

MMRosen:rke

Possible Questions For Mr. McCloy

1. Have you made any independent estimates of CEEC requirements? How do your estimates differ from those of the U. S. Administration and the Harriman Committee?
2. What have been your sources and how have they differed from those of the U. S. Government?
3. Do you regard the \$6.8 billion proposed by the Administration as the absolute minimum which must be given?
4. Do you approve of the provision in ERP for U. S. guarantees of private investment? Could I.B.R.D. handle this since it is one of its functions?
5. Why should the U. S. help to finance the expansion of power facilities in Europe which is greater than that of the U. S.
6. How specific should the U. S. require the production goals in Europe to be?
7. How can we best attain the implementation of the commitments in Paris of the CEEC countries?
8. It has been stated that this is a recovery program, not a relief program. How much of the projected program is for relief and how much for recovery?
9. What do you believe exports of coal from Poland will be over the four year period?
10. Will the Bank make any stabilization loans?
11. How will the Bank work with ECA in the determination of loans?
12. Why should greater production than pre-war be financed by the U. S.?
13. What steps can be taken to achieve monetary stability in Europe?
14. How can equilibrium in the European balance of payments be restored if foreign investments are permanently gone?

OFFICE MEMORANDUM

China
ERI

TO: Mr. John J. McCloy

FROM: Yuen-Ting Shen

SUBJECT: Some observations on the European Recovery Program

DATE: 13 January 1948

1. I think Professor Varvaressos in his excellently written memorandum of January 9 has raised a very interesting point in our discussion of the European Recovery Program by pointing out that even if it were possible to reduce by 1951/1952 the total trade deficit of the Marshall Plan countries with North America, and especially the United States, to the pre-war size of \$1,200 million per annum which was the figure for 1938, it is still difficult to see how this deficit can be met in view of the serious depletion of Marshall Europe's dollar assets, which serves to reduce the investment income of the various countries, the growth of American Merchant Marine which further reduces the income obtainable from shipping, and the political developments in southeast Asia which will make it dubious whether Europe can in the future derive dollar income from the sale of what formerly were colonial products.

2. It will be well to recall at this point that it has never been the aim of the European Recovery Program to make Western Europe economically self-sufficient. The basic aim of the recovery program, as stated in the Department of State booklet, "Outline of European Recovery", is "to expand production, eliminate abnormal demands from the outside world, and produce increased exports to pay for needed continuing imports."

3. It seems to me that reduced to basic fundamentals, the problem is simply to increase Marshall Europe's exports in order to enable the countries concerned to continue importing the two indispensable items in their economy: raw materials and foodstuffs.

4. Professor Varvaressos, after noting that it will be difficult for Europe to look for dollar income from trade with southeast Asia or for a changeover of the import surplus in Europe's trade with South America into an export surplus, comes to the conclusion that the only way for Western Europe to increase its dollar income would be to increase directly its exports to the United States.

5. While I do not rule out the possibility that imports into the United States from Western Europe could be increased to a certain extent by proper pricing and intensified sales drives, I doubt whether the increase that may be realized can offset to any appreciable extent the anticipated deficit. If European products cannot successfully compete with American products in other markets, then it would be even more difficult for them to compete with American products in their own home market.

6. It is thus evident that while it is extremely important to expand Europe's productivity, it is equally important that room must be found to absorb the products of this increased productivity. If this were not achieved, then stagnation will once again descend upon the economy of Western Europe, and all the tremendous efforts involved in the recovery program will have accomplished nothing more than another relief action.

7. I therefore think that in order for the European Recovery Program to truly achieve its purpose and to bring about other than ephemeral benefits not only to the countries directly encompassed by the recovery plan, but to other areas as well, it is of great significance that reconstruction and development projects be promoted in the so-called other areas of the world simultaneously with the effectuation of the European Recovery Program. To the extent that the other areas of the world attain greater economic development, which will concomitantly bring about an increasing measure of purchasing power, which in turn means that more consumer goods from manufacturing countries will be absorbed, the other areas of the world have a valuable contribution to make to the successful outcome of the entire conception behind the European Recovery Plan.

8. Professor Varvaressos said in his memorandum that Europe is one of the major trading partners of Latin America, which I think is also true conversely, that is, that Latin America is only one of the trading partners of Europe. Asia, with its nearly one billion population, is a tremendous market whose potentialities have not hitherto received the attention they deserve. Economic development of the vast areas of Asia will open up tremendous buying power which will easily absorb not only the exportable products of Europe, but also a great part of the exports which the U. S. has been sending to Europe but which will not be needed as European productivity is restored.

9. In your testimony before Congressional hearings, I think it will so much more make the European Recovery Plan a practical and feasible plan if you will incorporate the idea that the success or failure of the European Recovery Plan depends also upon the economic health of the rest of the world. In this connection, the International Bank occupies an indispensable place in the entire pattern, in that in assisting to develop economically the other areas of the world simultaneously with the carrying out of the European Recovery Program, the ground will have been paved for the smooth functioning of an integrated world economy in which all the areas of the world have a definite contribution to make for the benefit of the whole.

FILE COPY

Mr. John J. McCloy

January 13, 1948

Martin M. Rosen

Congressional Hearings

Attached are the following summaries of Congressional Hearings on ERP:

1. Secretary Anderson's testimony before the Senate this morning;
2. Ambassador Douglas' testimony before the House this morning.

There are also attached summaries of yesterday afternoon's testimony, the gist of which has already been given to you as follows:

1. Secretary Harriman before the Senate;
2. Secretary Marshall before the House.

Attachments - 4

MMRosen:rke

Alcom - E. C. A.

FILE COPY

Mr. John J. McCloy

January 12, 1948

Martin M. Rosen

Congressional Hearings

Attached are the summaries of the hearings this morning before the Senate Committee (Ambassador Douglas) and the House Committee (Secretary Marshall). There is also a summary of the prepared statement of Secretary Harriman before the Senate Committee this afternoon.

The questions and answers for both House and Senate afternoon sessions are now being prepared.

Attachments - 3

MMRosen:rke

Recon - E. C. A
Plan

FILE COPY

Mr. John J. McCloy

January 9, 1948

Martin M. Rosen

Hearings before Senate Foreign Relations Committee

Attached are Harrison Clark's summary and paraphrase of the questioning of Secretary Marshall yesterday and of Ambassador Douglas this morning. Also attached is a summary of Ambassador Douglas' testimony of this afternoon.

Attachments - 3

MMRosen:rke

Alcon - E C A

to CAP

FILE COPY

January 9, 1948

Mr. John J. McCloy

Drew Dudley

Transcript of House Hearings on Marshall Plan

Although we have tried every conceivable way, through Chairman Eaton's office and the Clerk of the Committee, to secure the verbatim transcript of the House Foreign Relations hearings, the following is the ruling:

It is a House ruling that these hearings cannot be purchased by anyone. The hearings are not released until they are corrected, approved and printed. They may be printed in sections, or they may not be printed until the hearings are completed -- which way has not yet been decided.

The International Bank has been placed on the mailing list to receive the hearings as soon as they are printed.

Drew Dudley

cc: Mr. Chester McLain

DD
enc

Recon - E.C.A.
Marshall
Plan

FILE COPY

Mr. Morton M. Mendels

8 January 1948

Leonard B. Rist

Board Meeting on the Marshall Plan preparatory to the Board Meeting scheduled for 9 January 1948 at 2:30 P.M. on the Marshall Plan

I am submitting for distribution to the Board the following documents:

1. Agenda for the discussion;
2. Summary paper giving the Bank Staff's "Evaluation of the CEEC Report, including Production and Import Targets" (MPAC/Pol/Gen 5/8 January 1948). This paper is in essence the summary and conclusions of the various technical papers which have been circulated to the Board on Secretary's Memos Nos. 295, 305, 313, 315 and 319, as were requested by some members of the Board at its meeting on 7 January.
3. Comparison of I.B.R.D. and Paris estimates of equipment needs.

Attachments - 3

MMRosen:rke

FILE COPY

Recon - E.C.A

Mr. John J. McCloy

January 8, 1948

Leonard B. Rist

Secretary Marshall's testimony.-

I am forwarding herewith the summarized statement prepared by Harrison Clark on Secretary Marshall's testimony this morning.

It consists of :

1. - Senator Vandenberg's statement on the order of which administration witnesses will testify;
2. - a synopsis of Secretary Marshall's statement;
3. - a summary and paraphrase of answers to questions from Senators Vandenberg, Connally, George and Wiley.

1 encl.

lbr/mlc

ROUTING SLIP

Date 1-9-48

TO-		Name	Room No.
1		Mr. Hoar	407
2		<i>Files</i>	
3			
4			
FOR-			
	A	Specializing	
		Preparing Reply	
		Previous Papers	
		Noting and Returning	
		Recommendation	
	In	Signature	

SPECIALMUST BE AT
DESTINATION

TIME ISSUED

O.K'd BY

REMARKS

In connection with this afternoon's Board Meeting, you may be interested in the attached list of papers which have been circulated to the Board.

(you have those checked in red in your files)
ms

FROM- M.M. Rosen

January 8, 1948

Marshall P.

LIST OF MARSHALL PLAN AGENDA COMMITTEE PAPERS WHICH HAVE BEEN CIRCULATED TO THE BOARD

3/6,
a week

7/3

12/7
13/23

17/24

26/27

22/04

- ✓ MPAC/Tech 1/1 Oct., 1947 - SUMMARY OF PARIS REPORT
- ✓ MPAC/Tech 2/9 Oct., 1947 - INVENTORY OF EQUIPMENT REQUIREMENTS
- ✓ MPAC/Tech 4/23 Oct., 1947 (Rev.) - COAL TECHNICAL REPORT
- ✓ MPAC/Tech 5/20 Sept., 1947 - EXPECTED REVIVAL IN FOREIGN EXCHANGE EARNING CAPACITY OF MARSHALL EUROPE'S OCEAN FLEET
- ✓ MPAC/Tech 6/13 Oct., 1947 (Rev.) - AN APPRAISAL OF THE REPORT OF THE FOOD & AGRICULTURE COMMITTEE OF THE COMMITTEE OF EUROPEAN ECONOMIC COOPERATION
- ✓ MPAC/Tech 9/21 Oct., 1947 - THE INTERRELATIONSHIPS OF COOKING COAL, COKE, IRON AND STEEL
- ✓ MPAC/Tech 10/22 Oct., 1947 - CUSTOMS UNIONS
- ✓ MPAC/Tech 11/23 Oct., 1947 - THE VALIDITY OF THE PRICE ASSUMPTIONS UNDERLYING THE PARIS REPORT
- ✓ MPAC/Tech 15/4 Nov., 1947 (Rev.) - AN APPRAISAL OF FERTILIZER REQUIREMENTS AS GIVEN IN THE REPORT OF THE FOOD AND AGRICULTURAL COMMITTEE OF CECS
- ✓ MPAC/Tech 18/29 Oct., 1947 - MANPOWER - AN APPRAISAL OF THE REPORT OF THE MANPOWER COMMITTEE OF CECS
- ✓ MPAC/Tech 19/31 Oct., 1947 - REQUIREMENTS OF WESTERN EUROPE FOR CRUDE PETROLEUM AND PETROLEUM PRODUCTS, 1948-51
- ✓ MPAC/Tech 21/4 Nov., 1947 - MARSHALL PLAN COUNTRIES TRADE WITH EASTERN EUROPE
- ✓ MPAC/Tech 23/18 Nov., 1947 - EUROPE: ECONOMIC PROGRESS SINCE THE WAR AND THE PRESENT CRISIS - Summary Observations
- ✓ MPAC/Tech 23/18 Nov., 1947 (Appendix I) - THE EXISTING SITUATION IN EUROPE
- ✓ MPAC/Tech 24/20 Nov., 1947 - FOREIGN EXCHANGE BURDEN OF THE EXISTING DEBT SERVICE FOR MARSHALL PLAN COUNTRIES
- ✓ MPAC/Tech 25/12 Nov., 1947 - MARSHALL PLAN COUNTRIES' TRADE WITH LATIN AMERICA
- ✓ MPAC/Tech 26/14 Nov., 1947 - MARSHALL PLAN COUNTRIES' TRADE WITH SOUTH-EAST ASIA
- ✓ MPAC/Tech 27/14 Nov., 1947 - MARSHALL PLAN COUNTRIES' BALANCE OF TRADE

LIST OF MARSHALL PLAN AGENDA COMMITTEE PAPERS WHICH HAVE BEEN CIRCULATED
TO THE BOARD (continued)

- ✓ MPAC/Tech 29/28 Nov., 1947 - AGREEMENT REACHED IN PARIS ON MULTILATERAL SETTLEMENT OF BALANCES ON PAYMENTS AGREEMENTS
- ✓ MPAC/Tech 31/2 Dec., 1947 - TRADE OF THE MARSHALL PLAN COUNTRIES WITH OCEANIA

- ✓ MPAC/Pol/Admin 1/23 Oct., 1947 (Rev) - ADMINISTRATIVE IMPLEMENTATION OF MARSHALL PLAN
- ✓ MPAC/Pol/Legal 3/10 Nov., 1947, - MEMORANDUM OF SUGGESTIONS FOR DISCUSSION BY EXECUTIVE DIRECTORS
- ✓ MPAC/Pol/Gen 5/8 Jan., 1948 (Rev) - EVALUATION OF THE CEEB REPORT INCLUDING PRODUCTION AND IMPORT TARGETS

ROUTING SLIP

Date 1-7-48

TO-	Name	Room No.
1	Mr. Hoar	407
2	<i>M. Hill</i>	
3	M. Hamilton	
4	<i>Files</i>	402.

FOR-

	Action	Initialing
	Approval	Preparing Reply
	Comment	Previous Papers
	Filing	Noting and Returning
	Full Report	Recommendation
<input checked="" type="checkbox"/>	Information	Signature

MARKS

Thought you might like to see this note which I sent to Mr. Gordon in response to his telephone request for a suggestion concerning the line that Mr. McCloy might take should he be confronted with a question of this type.

FROM- O.A. Schmidt 

FILE COPY

E. C. A.

Mr. David L. Gordon

January 7, 1947

O. A. Schmidt

This is in response to our telephone conversation in which you indicated that you are preparing material for the possible use by Mr. McCloy in his testimony before Congress on the ERP and requested suggestions concerning the type of answer which might be made to a question as to whether the Bank in the French Loan Agreement inserted provisions requiring France to take specified action to stabilize its monetary, fiscal, or economic situation.

I think it would be well to avoid, if possible, any discussion in this connection of the particular loans made by the Bank to date. It may be possible to avoid this should Mr. McCloy take the general line:

That the type of provisions to be inserted in any particular loan agreement would depend upon the type of loan and the purpose for which it was to be used;

That the Bank's greatest influence must be in its decision whether or not to extend a loan, in which it will be influenced by conditions prevailing in the country at the time the loan is being negotiated---by programs actually underway at the time and by the Bank's judgment concerning the intentions of the government to follow through in an effective manner;

That while the Bank might in certain instances insert in the loan agreements provisions concerning action to be taken by governments toward stabilizing their economies (or types of action which the governments would pledge to refrain from taking), the Bank cannot insert provisions requiring action of a broad and sweeping

Representations may go very far in committing Govt. to wholesale measures of reform

ASGH 7/i

FILE COPY

character, such as would require extensive legislation, or the execution of programs, the success of which might be dependent upon conditions or developments beyond the control of the particular country (such as the ability to import coal, which might have a far-reaching effect upon the stabilization program);

That the American Government, however, in the EHP is in a substantially different position from the Bank in that (i) the financial assistance given will undoubtedly be of much greater dimensions than are the loans of the Bank, and (ii) the US Government, in dealing as it is with a large group of countries, may be able to deal more effectively with those aspects of a country's stabilization program which are related to stabilization in other countries.

Should it not be possible to forestall a question as to whether the French Loan Agreement contains a provision requiring the French Government to take action to stabilize its economic situation, it is suggested that Mr. McCloy make an answer along the following lines:

That the French Loan Agreement does not contain any provisions requiring that specific action be taken or specific goals be achieved as of any particular date;

That the loan was made to assist France in the general program for the reconstruction and development of its productive facilities and resources—a program upon which France had already embarked and which related to all important aspects of the French economy and fully recognizes the importance of achieving stability as soon as possible, not only in the internal fiscal and financial situation but also in France's international position;

FILE COPY

That in view of the far-reaching character of the program and the fact that the achievement of many of its goals was dependent upon countries other than France, the Bank felt that, in deciding to make the loan, it must rest on its best judgment concerning the intentions of the French Government to take the measures necessary to the success of the program and on the ability of France to achieve the desired results, but that it could not insure those results by inserting provisions in the Loan Agreement.

Mr. McCloy might further point out:

That the Bank does, of course, in all cases take steps to make sure that the funds are used for the purposes for which the loan was extended and that all other provisions of the loan agreement are fully carried out;

That, furthermore, should France approach the Bank in the future for any additional loans, the Bank, of course, would give much weight to the steps taken by France to achieve financial stability and the success attained by it in reaching this objective.



OAS:amh

ARTHUR H. VANDENBERG, MICH., CHAIRMAN
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CARL A. HATCH, N. MEX.

FRANCIS O. WILCOX, CHIEF OF STAFF
C. C. O'DAY, CLERK

United States Senate

COMMITTEE ON FOREIGN RELATIONS

January 6, 1948.

Honorable Eugene R. Black
Executive Director
International Bank for Reconstruction and
Development
1818 H Street N.W.
Washington, D.C.

Dear Mr. Black :

The Chairman has asked me to contact you to ask that you appear before the Committee in connection with the hearings on the "European Recovery Program." The hearings will begin January eighth and it is the plan to hear Government witnesses in the first instance.

Very truly yours,

Call Jan 8
C. C. O'Day
Clerk-Foreign Relations Committee.

10

Alison E.C.A

FILE COPY

Mr. Drew Dudley

January 6, 1948

Ralph Forster

Memorandum, Mr. McCloy's Questions and Answers, page 3, paragraph 3

W In view of the international character of the Bank and the very great ignorance of the United States as to what other countries had done to help western Europe, I suggest that this paragraph might be augmented to show in some detail the billions of dollars which Canada and the United Kingdom have already loaned and given. It might be pointed out that the only reason they are not doing it now is that they started before the United States and have no more to lend or give.

r

ROUTING SLIPDate 1/12/48

TO-		Name	Room No.
1		Mr. Hoar	407
2			
3			
4			

FOR-

	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
X	Information		Signature

REMARKS

FROM- C. H. Davies

ERP

SUMMARY OF BILL (H.R. 4840) INTRODUCED JANUARY 6, 1948.

THE ECONOMIC COOPERATION ACT OF 1948.

- 1. (Sec. 4) Aid to Europe will be administered by the Economic Cooperation Administration, under an Administrator.
- 2. (Sec. 5) An United States Special Representative in Europe, with rank of Ambassador, will represent the United States on any organization set up by participating European nations. He may also represent the United States on the Economic Commission for Europe.
- 3. (Sec. 7 (a)) The Administrator is empowered to furnish assistance by conducting the following activities:
 - (a) Procurement of commodities, including ships;
 - (b) Processing, storing, transporting and repairing commodities, or performing any other necessary services;
 - (c) Providing technical information and assistance;
 - (d) Chartering United States ships;
 - (e) Transferring any commodities or services to participating nations.
- 4. (Sec. 7 (b)) To discharge the above functions, he is empowered:
 - (a) To make advances or reimbursements to participating countries or agencies thereof;
 - (b) To utilize the services of United States Departments and agencies, or cooperate with the United Nations,



other international organizations or agencies of the participants;

- (c) To guarantee (to any persons) investments in approved projects.

5. (Sec. 7 (c)) Assistance, as above, may be rendered through grants, for cash payment, on credit, or on any other appropriate terms. In determining terms, he must consult with the National Advisory Council. Terms of any payment required must depend on the capacity of the country to pay without jeopardizing recovery. When credit terms are chosen, the Administrator is to allocate the necessary funds to the Export-Import Bank.

6. (Sec. 8) The Administrator may take steps to promote an increase in the production by participating countries of materials in which the United States is deficient.

7. (Sec. 9 (a)) The Reconstruction Finance Corporation is authorized to make advances not exceeding \$500 million, pending appropriations under the Act.

8. (Sec. 9 (c)) Appropriations not exceeding \$6,800 million are authorized to furnish aid through June 30, 1949.

9. (Sec. 10) Before receiving aid, a participant country must conclude an agreement with the United States expressing adherence to the purposes of the Act and providing, as required, for:

- (a) The promotion of industrial and agricultural production;
- (b) Taking steps to put currency and rate of exchange on a stable basis;

- (c) Cooperation with other countries to stimulate the flow of trade;
- (d) Making the best use of resources, including supplies received under the Act;
- (e) Facilitating sale to the United States of materials in which the latter is deficient;
- (f) Creating a special deposit of its own currency in respect of supplies received free, such funds to be used only for purposes agreed with the United States;
- (g) Publishing at least quarterly a full report on the use of funds, commodities and services received under the Act;
- (h) Furnishing promptly any information needed to determine further aid.

Aid may be given pending such agreements to countries which signify intention to comply.

10. (Sec. 12) The President is authorized to request the cooperation of, or the use of services and facilities of the United Nations, its organs, and specialized agencies, or other international organizations, and to make any necessary advances or reimbursements.

11. The powers of the Administrator are to be terminated not later than June 30, 1952, except as necessary (through June 30, 1955) to carry out agreements previously made. Funds will be available under such agreements through June 30, 1957.



Varvaressos

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

WASHINGTON 25, D. C.

January 5, 1948

Dear Mr. McCloy:

I am transmitting herewith our second Memorandum, which deals with the Problem of Intra-European Trade.

The Memorandum took longer to prepare than we had anticipated because much of the statistical background for which we thought we would be able to rely on Fund data had to be compiled by ourselves.

We have particularly enjoyed preparing this Memorandum because it deals with issues on which we feel strongly, and we have even reached the stage of believing that we have done the job of the Gilbert and Sullivan fireman:

"On fire that glows
With heat intense
I turn the hose of common sense
And out it goes
At small expense."

Yours sincerely,

K. Varvaressos

K. Varvaressos

Mr. John J. McCloy, President
International Bank for
Reconstruction and Development
Washington, D. C.

January 5, 1948

Dear Mr. O'Day:

I have your letter of January 3rd ✓
advising me that the Chairman wishes that I
appear before the Committee in connection with
the "European Recovery Program." I shall hold
myself available to do this but would naturally
appreciate as much advance notice as possible
of the time I am apt to be called.

I would assume that the Government
witnesses would take up at least the first week
of the hearings.

Sincerely,

Mr. C. C. O'Day
Clerk, Senate Foreign Relations Committee
United States Senate
Washington 25, D. C.

ARTHUR H. VANDENBERG, MICH., CHAIRMAN
ARTHUR CAPPER, KANS.
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ALBEN W. BARKLEY, KY.
CARL A. HATCH, N. MEX.

FRANCIS O. WILCOX, CHIEF OF STAFF
C. C. O'DAY, CLERK

European Recovery Program
JAN 5 REC'D

United States Senate

COMMITTEE ON FOREIGN RELATIONS

January 3, 1948.

Honorable John J. McCloy
President
International Bank for Reconstruction
and Development
1818 H Street N.W.
Washington, D.C.

Dear Mr. McCloy :

The Chairman has asked me to write you to say that it is
his desire that you appear before the Committee in connection
with the hearings on the " European Recovery Program."

The hearings will start January seventh and Government wit-
nesses will be heard in the first instance.

Very truly yours,

C. C. O'Day
Clerk- Senate Foreign Relations
Committee.

ackn. Jan. 5

UNITED STATES SENATE

COMMUNICATIONS SECTION

RECEIVED JAN 11 1948
U.S. SENATE
COMMUNICATIONS SECTION
WASHINGTON, D.C.

January 8, 1948

Honorable John L. McCloy
President
International Bank for Reconstruction
and Development
1818 H Street N.W.
Washington, D.C.

Dear Mr. McCloy:

Chairman has asked me to write you to say that it is
his desire that you appear before the Committee in connection
with the hearings on the "European Recovery Program."
Hearings will start January seventh and Government wit-
nesses will be heard in the first instance.

JAN 5 1948
U.S. SENATE

RECEIVED JAN 11 1948
U.S. SENATE
COMMUNICATIONS SECTION

Very truly yours,

Mark-Charles Watkins
Committee