

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 16, 1947

To Chairman Eccles
From Mr. Knapp and Mr. Dembitz

Subject: Mr. Aldrich's speech of
September 20 on "American Interest in
European Reconstruction"

AM LND
Mr. Aldrich favors the Marshall Plan in order to prevent economic collapse and the rise of totalitarianism among the nations of Western Europe. He expresses the view that "our security as a nation depends in large measure upon the prompt and successful economic reconstruction of Western Europe", and estimates that 16 billion dollars of dollar aid (part of which would come from the International Bank) may be required for this purpose. The aim of the American aid already granted, he says, was to give time for recovery, but the time has proved too short and the amount too small.

In order to protect our own economy, Mr. Aldrich says, "the funds appropriated to assist Europe must be provided within the scope of a balanced budget, even though this might postpone for a considerable period of time the over-all reduction of existing taxes". He also suggests the possibility of reestablishing priorities for goods in scarce supply, and of introducing "voluntary" forms of food conservation.

Mr. Aldrich does not discuss terms of repayment, but by using the words "aid" and "credits" interchangeably he appears to assume that the assistance should take the form of loans rather than grants. He does urge in the interests of economy that the credits should not be "tied" but should be left free to be spent in the cheapest markets; he points out that by this procedure the effect on our domestic economy is likely to be minimized.

Mr. Aldrich points out the need for checking inflationary developments in European countries through internal financial reforms. "Budgets should be balanced, central banks should cease issuing credit upon the basis of the public debt, internal investment programs should be limited to voluntary savings, interest rate policies should be made flexible, subsidies should be eliminated, and realistic rates of exchange in line with cost and price structures should be established." In this connection, however, he does not favor the proposal of the Paris Committee that the Marshall Plan include provision for currency stabilization loans of 3 billion dollars to restore gold reserves of Marshall Plan countries to appropriate levels. He argues that if appropriate internal measures are taken, such loans will not be required, and if appropriate internal measures are not taken, they would merely be dissipated.

Mr. Aldrich also calls for a dismantling of trade barriers and of governmental economic controls in Europe. In order to release "dynamic economic forces", he advocates "full play for the competitive forces of the market place". In addition he emphasizes the importance of recovery in Germany to recovery in the rest of Europe.

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Apart from expressing these general views, Mr. Aldrich proposes, as the mechanism for extending U.S. aid, the formation of a "U.S. Corporation for European Reconstruction". This corporation, with a nonpartisan board of five directors appointed by the President, would administer interim aid during the coming winter and also the main program over a four-year period. It would have broad discretionary powers to determine the type and amount of aid to be allocated to various areas and nations. It would give continuous review in order to assure that the assistance given is constructively used, and it would be expected to negotiate agreements concerning the measures which the beneficiary nations themselves would take to bring about reconstruction. It would leave to the International Bank any projects suitable for consideration by that institution and would try to create an environment that would encourage direct investments by American enterprises in the plants and equipment of Western Europe. At several points he emphasizes the desirability of such private capital participation, although he also admits that the American investor must receive assurance of "a reasonable prospect of continued world political stability and security over a long period of time".

The relationship that Mr. Aldrich envisions between this corporation and the National Advisory Council is not entirely clear. He refers to the N.A.C.'s function of coordinating the foreign loan policies of the United States and suggests that "the time has now come to carry the idea embodied in the establishment of the N.A.C. a step further . . . with respect to aid to Western Europe" by establishing now this corporation. Later in his speech Mr. Aldrich says that the corporation "should maintain close liaison" with the National Advisory Council and with the International Fund and Bank. Some comments on this organizational problem will be given to you shortly in a separate memorandum.