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Governor Skymczek

ERP Bill: changes made by

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House Committee on Foreign Affairs

The ERP Bill (S. 2202) has now been reported out by the House Foreign Affairs Committee and is being debated in the House of Representatives. As reported out by the committee there are a number of financial matters on which the House Committee has made changes from the bill as passed by the Senate.

The principal change made by the House Committee is the deletion of the so-called Taft amendment, which was inserted at the last moment on the floor of the Senate and which would authorize the Administrator to guarantee credits extended by governments or other lenders in the Western Hemisphere to ERP countries. This matter, which is discussed in more detail below, will be taken up by the HAC at tomorrow's meeting, since the State Department feels that the taking of a stand on this subject by the HAC may be helpful in influencing the consideration to be given to this subject on the floor of the House or in the subsequent conference between House and Senate. The other changes made by the House Committee are also noted briefly below; it is not yet certain whether any of them will be discussed at the HAC meeting tomorrow.

"Taft Amendment"

Under Section 11(b)(4) of the bill passed by the Senate, the Administrator could guarantee up to 70 per cent of any credit extended by a Western Hemisphere country to an ERP country for commodities and services to be transferred. The Administrator could also give a guaranty, without limit as to the amount, in connection with a credit extended by a person or corporation in the Western Hemisphere (including the U.S.) to an ERP country for commodities and services to be transferred. He could also agree to advance dollars on account of such guarantees at the time that the underlying goods are exported or at any time within 10 years after the making of such agreement.

The House Foreign Affairs Committee, in deleting this provision from the bill, expressed the view that the provision would not really carry out the purpose of inducing the fullest possible participation of other Western Hemisphere countries in ERP. It was felt that the proposed guarantees would influence sellers in the Western Hemisphere to withhold normal credit extensions in favor of the guaranteed credits. It was also pointed out that the procedure might be costly to the United States since it provides not for an exchange guaranty but for an unconditional guaranty of payments up to 70 per cent by countries receiving Latin-American goods.

The provision is also objectionable in principle in that the United States would for the first time be guaranteeing credits extended by foreign countries to third countries. The ERP is just as important to Latin-American countries as it is to the United States, and in fact, the particular transactions that would give rise to guarantees would be more beneficial to the

Latin-American country receiving the guaranty than to the United States. Therefore, the giving of such guarantees would set a bad precedent that might plague the United States in the future.

The guaranty system proposed by the Senate Bill would set up a veritable maze of administrative problems, of which the senators who sponsor it would seem to have been unaware. For all these reasons, the EAC should express its preference for the House version, i.e. with this section deleted.

However, there seems considerable likelihood that Congressional sentiment will insist on having some provision along these lines included in the final bill. If that happens, it seems to us (and to State Department representatives and to other members of the EAC Staff Committee) that the provision would be much less objectionable if it were at least confined to guarantees up to 70 per cent on credits extended by Western Hemisphere governments, as originally proposed by Senator Taft. It seems especially desirable that the further provisions as passed by the Senate, permitting guarantees of credits by private persons and permitting these guarantees in unlimited amounts instead of with a 70 per cent limit should be eliminated. We can find some justification for authorizing the Administrator to guarantee up to 70 per cent of credits by foreign governments (although we think, on balance, that the provision would be undesirable even if it were confined to such guarantees), but we see no real reason for permitting guarantees of credits extended by private creditors and no justification whatever for permitting guarantees beyond the 70 per cent limitation.

The justification for permitting 70 per cent guarantees on extensions of credits by foreign governments is that the Administrator would thus have a mechanism that might perhaps help him in his task of bringing about extensions of credit by Latin-American countries (at their own risk) to EEP countries. Such credits would reduce the total amount that the United States would have to supply to European countries either as grants or as loans at its own risk.

The guaranteeing of loans by individuals, banks or corporations might be somewhat less objectionable if they were confined to 70 per cent of the amount of each credit instead of being permitted in unlimited amounts. Nevertheless it would seem bad policy to permit the Administrator to enter the field of guaranteeing such credits for American lenders, since there already exist facilities in the Export-Import Bank and E.P.C. for giving any sound assistance that may be needed. It would be difficult to justify the arranging of guarantees for foreign banks and corporations if American banks and corporations were included.

The Staff Committee will therefore recommend that the Council express its preference as follows:

(1) The objectives sought to be achieved by this proposed provision could be achieved equally well under the other provisions of the bill without the inclusion of this provision;

(a) Should Congress wish to adopt such a provision, it should be confined to the guaranteeing of credits extended by foreign governments, and should not provide for the guaranteeing of any credits extended by persons, corporations or other entities;

(b) Should Congress nevertheless decide to permit guarantees of credits extended by persons other than governments, such guarantees should be limited to 70 per cent of the amount of each credit.

Other Changes from Senate Bill

Apart from the "Taft Amendment" the House Bill also retains the Senate provision whereby the Administrator may give guarantees to American enterprises investing in Europe, covering the conversion of the local currency that they receive into dollars. The House Committee would place the limit on the amount of such guarantees at \$400 million instead of the Senate figure of five per cent of the total EGF appropriations. We see no particular objection to this change.

The House Committee would also insert a clause specifically authorizing the Administrator to charge a fee not over one per cent per annum on such guarantees (and in effect requesting him to charge such a fee). The Senate Bill omitted any such clause, but would permit the Administrator to make rules and regulations which could presumably include the charging of a fee. We think that returning to the Senate version would be preferable, since the charging of a fee would tend to obscure the fundamental fact that the guarantees are intended not to further the penetration of American business in general in Europe but only to induce the particular kinds of investments that, if not made by a private enterprise, would have to be made with U. S. government funds.

The House Bill also has a clause that includes American publishing enterprises among those entitled to apply for guarantees; this seems an unfortunate departure from the principle that guarantees should only be given to enterprises that will contribute to accomplishing the economic objectives of the EGF. If American publishers are also to be taken care of, it would be preferable if that could be done in a separate Act of Congress or at least in a separate section of this Act.

A provision for the chartering of U. S. ships to European countries is restored by the House Bill. This provision, which appears as Section III(a)(4), is somewhat along the lines of the original Administration provision that was deleted by the Senate, and we think it represents a very desirable move by the House Committee.

The House Bill also includes an odd provision dealing with the providing of strategic materials to the United States which seems to contemplate the receipt of such materials by the United States in repayment

of grants (as well as in repayment of loans). This provision, which appears as Section 110(b)(9) of the House Bill seems to add little if anything to provisions already enacted by the Senate on strategic materials which appear in Sections 111(c)(1) and 113(b)(5) of the House Bill, and it would seem very desirable if the new Section 110(b)(9) could be deleted.

The House Bill would appropriate 4.3 instead of the Senate's 5.3 billion dollars but would authorize the Administrator to raise an additional one billion dollars by issuing notes to the Treasury. This one billion dollars would be available only for making loans, not grants. In this way the House Bill would require that at least one billion dollars out of the total 5.3 take the form of loans. While this reduces the discretion of the Administrator and of the NAC in determining the amounts of loans and grants, the Staff Committee saw no real reason for objecting to the change.

When countries receiving grants make deposits of local currency in special accounts, the House Bill would require the Administrator to consult not only with the NAC but also with the Public Advisory Board as to the disposition of such currency. As an organizational matter this may be confusing, since it might require in practice the holding of joint sessions of the NAC and the Public Advisory Board, but it may be wisest for the Council to refrain from entering any objection.

Section 110(b)(10) of the House Bill would also require that European countries in their bilateral agreements should make provision for

"submitting for the decision of the International Court of Justice or of any arbitral tribunal mutually agreed upon any case espoused by the United States Government involving compensation of a national of the United States for governmental measures affecting his property rights, including contracts with or concessions from such country."

The objections to this provision seem to be political rather than economic, and therefore the Staff Committee is not recommending that the NAC take up the subject.

In addition to the subject of European assistance, the House Bill has additional Titles dealing with the International Children's Emergency Fund of the U. N. and with military and other aid to Greece, Turkey and China. It provides for appropriations of \$60 million for the Children's Fund, of \$375 million of new money for Greece and Turkey, and of a total of \$570 million for China.

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