

SECRET

National Advisory Council
Document No. 663
April 14, 1948

MEMORANDUM To: The National Advisory Council
From: The National Advisory Staff Committee
Subject: Division of ERP Assistance Between Grants and Loans

1. Problem

The Economic Cooperation Administrator has requested the advice of the National Advisory Council on the division to be made in the assistance between loans and grants (a) for each participating country for the first quarter of the European Recovery Program, and (b) for China.

2. Background

a. On February 6, 1948, the Chairman of the NAC, pursuant to a request from Senator Vandenberg for a distribution of aid to ERP countries on the basis of loans and grants, submitted a preliminary and tentative breakdown to the Secretary of State for his transmittal to Senator Vandenberg as follows:

Cash payment basis:

Switzerland, Turkey, Portugal

100% loan basis:

Sweden, Iceland, Ireland

100% grant basis:

Greece, Austria

85% loans, 15% grants:

Norway, Belgium-Luxembourg

20% loans, 80% grants:

The United Kingdom, the Netherlands, Denmark

10% loans, 90% grants:

France, Italy

SECRET

- 2 -

Aid to Germany out of a Congressional appropriation for ERP would result in a claim against that country requiring future negotiation with respect to settlement.

The foregoing breakdown was subsequently transmitted by the State Department to Senator Vandenberg with the two following modifications:

- (1) While Turkey was still included among the countries on a "cash payment basis", the letter indicated that this classification was tentative and that it might prove necessary and more appropriate to make ERP aid available to Turkey on a loan basis.
- (2) For countries on a partial loan and partial grant basis, no indication was given of the ratio of loans and grants applicable to each such country.

b. No previous consideration has been given to a breakdown between grants and loans for China.

3. Discussion

a. A definite division of ERP assistance to a particular country between grants and loans cannot be made until such time as the allocation of assistance to the country has been definitely determined. The division between grants and loans can be made on an operating basis, however, for the first quarter since there is the possibility of making necessary adjustments in the later quarters.

The percentages of loans and grants were arrived at on the assumption that (a) the allocations will be determined according to the general magnitude of the Western Hemisphere deficit, and (b) that the amount of U. S. aid (whether in the form of loans or grants) to each participating country would be based primarily on the projected deficit of each country in its trade with the Western Hemisphere only. No allowance was made for the possibility that under a different system of allocating aid, a different ratio of loans and grants for particular countries might be warranted. As for loan terms, it was assumed that the terms would fall within the range on loans previously established by the U. S. Government.

The estimated division of ERP aid for each country was distributed between loans and grants on the basis of the current judgment of the Staff Committee as to each country's prospective ability to pay. In making this

- 3 -

judgment the Committee took into consideration the amount of aid likely to be received by each country over the full $4\frac{1}{4}$ years of the program.

Assistance extended to the Bizone and the French Zone of Germany represents a charge on the German economy. The terms of payment of any unpaid balance cannot be determined until the final peace settlement and therefore must be kept open.

After consideration of the position of each participating country, the Staff Committee has modified slightly the previous percentage breakdown in the case of a number of the countries. It recommends that the revised percentages be used for the allocations in the first quarter.

b. In the case of China, the Staff Committee considers that on the basis of the Chinese ability to repay, the whole of the non-reconstruction items should be provided on a grant basis and that the terms of payment for reconstruction items should be settled later, after the projects have become known.

4. Recommendation

The following action is submitted by the Staff Committee for the consideration of the National Advisory Council:

(a) The National Advisory Council is of the opinion that the following classification of recipient countries under the European Recovery Program should be observed in determining the terms of U. S. assistance which is allotted to each country in the first quarter:

(1) Cash Payment Basis

Portugal, Switzerland.

(2) 100 Percent Loan Basis

Iceland, Ireland, Sweden, Turkey (to the extent that any assistance is extended to Turkey).

(3) 100 Percent Grant Basis

Austria, Greece.

- 4 -

(4) Part Loan and Part Grant Basis

Italy, 10 percent loans, 90 percent grants;
France (including Saar), 15 percent loans,
85 percent grants;
United Kingdom, 25 percent loans, 75 percent
grants;
Netherlands, 25 percent loans, 75 percent
grants;
Denmark, 25 percent loans, 75 percent grants;
Norway, 50 percent loans, 50 percent grants;
Belgium-Luxembourg, 85 percent loans,
15 percent grants.

(5) Charged to German Economy (Terms of payment of un-
paid balance to be determined at peace settlement)

Bizone Germany and French Zone of Germany.

(b) The National Advisory Council is of the opinion that, on the basis of the Chinese ability to pay, the whole of the assistance extended to finance other than reconstruction projects should be provided on a grant basis and that the terms of repayment for the aid extended to finance reconstruction projects should be held open until after the projects have become known.