BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 7, 1948

To Chairman Eccles

Subject:

From Mr. Knapp

Attached is a copy of the statement which Secretary Snyder will deliver before the Senate Foreign Relations Committee (probably next Monday) concerning the European Recovery Program. In his statement, Secretary Snyder, speaking in his capacity as Chairman of the National Advisory Council, gives a general survey of the financial questions arising in connection with the Program and presents the Council's views on these matters. In addition, he concludes with a statement on his own behalf urging that E.R.P. expenditures be covered in the current budget.

I have been consulted on the drafting of this statement and have given it clearance. I must say that it is not a very inspired message, but I did not feel called upon to do anything more than correct inaccuracies. I believe that the statement now correctly reflects the position taken by the National Advisory Council on the various issues discussed.

As I have informed you, Secretary Snyder has requested that the senior staff member from each N.A.C. agency accompany him in his appearance before the Committee to assist in answering questions. I have been assigned particular responsibility for questions relating to the fiscal and monetary policies of the various countries and to the disposition of the local currency proceeds of grants-in-aid.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 12, 1948

To Chairman Eccles

Subject:

From Mr. Knapp

JAK

Attached is the final draft of Secretary Snyder's statement on the European Recovery Program. A few revisions have been made in the previous draft. The most significant one is in the last sentence on the first page in which the Secretary states that the proportion of total aid which is to be provided on a loan basis will depend in part upon "the degree of flexibility which can be introduced into the terms of repayment". In response to questions, Secretary Snyder will be prepared to take the same line on this subject as was taken by Mr. Douglas, namely that from 20 to 40 per cent of the total aid might be provided on a loan basis depending upon whether the terms are firm or flexible.

Attention is also called to the last sentence of the first paragraph on page 2 in which Secretary Snyder undertakes to discuss the role of the National Advisory Council in the European Recovery Program and otherwise, if the Committee so desires.

Attachment

C O P Y

DRAFT 1/3/48

Statement of the Secretary of the Treasury
on the
European Recovery Program

The President, in his message, has laid before you the Administration's proposal for a European Recovery Program and in greater detail the Secretary of State has described the need for assistance to Europe and the manner in which, and extent to which, it is recommended that American assistance be given. The financial aspects of the Program have been carefully considered by the National Advisory Council on International Monetary and Financial Problems. This is a program for the full-fledged economic recovery of Europe, not a relief program. The Council throughout has approached the foreign financial policy issues involved to determine what specific lines of action would most effectively contribute to this basic objective of economic recovery. As Chairman of the Council, I welcome this opportunity to review for you the conclusions reached by the Council and then to comment on the domestic financing of the Program.

In the first part of my statement I shall review the principal financial aspects of the Program. I shall then say something about the measures which we shall expect the European countries themselves to take. The remainder of my comments will be concerned with the domestic financing of the Aid Program.

The first matter which I wish to take up is the question of the form in which aid should be extended to Europe. We could provide this assistance as grants-in-aid, or we could make loans, or we could use a combination of both. The criterion for selecting one or the other device should be the

capacity of the participating countries to earn, in the years to come, the dollars which would be needed to pay interest and principal. The participating countries have, over a period of years, assumed the obligation of making large annual payments of interest and amortization on dollar loans and credits, both public and private. We should take care not to insist that these countries contract additional dollar debts which will overburden their balance of payments to the disadvantage of future trade and private investment. If the entire aid for European countries were to be on a loan basis, it would be practically impossible for them to meet the additional annual charges from their earnings of dollars, even after trade and investment return to normal.

This means that a proper part of the aid we give should be in the form of grants-in-aid. Imports of current supplies of food, fertilizer, and fuel, and raw materials not used for capital development, should be provided on a grant basis, except in the case of those countries which clearly can afford to pay for aid on a cash or a loan basis. On the other hand, capital equipment and raw materials to be used in connection with capital development will serve to increase the productive capacity of the recipient countries. They are thus more likely to provide means of repayment and so can more properly be financed on a loan basis, unless the prospective balance of payments of the recipient country makes it unlikely that it will be able to meet even relatively small additional fixed dollar charges.

The International Bank may be expected to finance part of the capital requirements of the European countries, particularly where they require the financing of permanent additions to their equipment. It does not seem

likely, however, that the Bank will be able to carry the whole, or even the major, part of the Program which properly ought to be put on a loan basis. We propose, therefore, that when the Administrator for Economic Cooperation decides, after consulting the National Advisory Council, that it is desirable to extend aid on a credit basis, he will allocate the funds to the Export-Import Bank of Washington, which will then make the loan as directed and on terms specified by the Administrator in consultation with the National Advisory Council. This procedure will enable the Administrator to draw upon the broad experience of the Export-Import Bank in the making of foreign loans.

It is also important that the American business enterprises be given opportunity to participate in the Recovery Program by making new investments abroad, or by expanding existing facilities where the Program calls for additional capital equipment. In this way they will contribute to the restoration of Europe, while at the same time they will be carrying out their own programs for expansion abroad. Private investment will save the taxpayer money in the long run. We must recognize that new investments would be made at a time of peculiar uncertainty and that the investors might have some difficulty in converting their earnings or their original principal into dollars. To facilitate private investment, therefore, it will probably be necessary for the Government to guarantee the convertibility into dollars of local currency earned by the investment or available for the repatriation of the original investment. While we may expect that the participating countries will try to make dollars available, it is possible that they will not have adequate dollars to permit conversion. The Economic Cooperation

Administration should not be expected to guarantee American companies making these investments against normal risks, but merely to give them a transfer guaranty. We propose that not more than 5 per cent of the funds appropriated by Congress for the Program should be obligated for these guaranties, and that the guaranties themselves should not exceed the amount of the original investment and should not be extended more than 14 years from the time the Act goes into effect.

Some people have argued that the participating countries should pay for part of the Program by using up their gold and dollar assets in the United States, and by liquidating the American investments of their own citizens. I need not labor the point that the European countries must have some gold and dollar reserves to finance their international trade if they are to return to normal operations after 1952. It should be kept in mind that the Economic Recovery Program is not intended to cover the entire import requirements of these countries. It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate smoothly through ordinary channels. By insisting that the participating countries exhaust their gold and dollar balances, we would merely add further instability to their monetary systems. As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its

long-run consequences. These investments annually earn a dollar income, which will be used to cover part of the cost of the Program, and which will be used in the future to meet part of the cost of imports after the Program ends. Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to expect European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

Even if these countries could liquidate all of the property owned by their citizens in the United States, they could not pay for more than a small part of the Program. We estimate that as of last June 30 the dollar assets held by persons in the recipient countries amounted to about $4.8 billion. Of this amount $1.5 billion consisted of direct investments, and a considerable part of the remainder also consists of holdings which would be difficult to liquidate. Some of these assets are already pledged for loans, while for many of the countries involved the amounts held here are negligible.

Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports. In practice this may be an alternative to borrowing from the United States. We certainly should not object to the governments using these funds. The question of policy for us to decide is the extent to which we can help these countries in obtaining control of these assets. In the case of unblocked assets, the only way the European governments can get control of them under present circumstances is through the compliance of their citizens with local laws. In fact, a

considerable portion of the assets formerly blocked in the United States have been unfrozen as a result of such action. While we do not have exact data on unblocked assets, we believe the amount is comparatively small.

A large part of the holdings are still blocked because their owners have not obtained from their own governments the certification that there is no enemy interest in their assets, which is required by the United States Treasury before the assets are unblocked. The National Advisory Council and the executive departments concerned with this matter have given very careful study to this problem, and I have discussed it at length with representatives of some of the leading banks. We recognize that the problem is peculiarly difficult, because conflicting public and private interests enter the picture at several points, and for this reason we wish to obtain guidance from the Congress. (In final draft, any recommendations approved by the NAC will be inserted here.)

It will not be possible to obtain all the goods needed for the Recovery Program in the United States, nor would it be desirable to attempt to do so. Some commodities are in short supply here and purchasing abroad would leave more available for our own population and would in many instances reduce the net cost of the Program. The needed amounts of food cannot be obtained in the United States. A large percentage of the requirements of grains, fats and oils, meat and other agricultural products can be procured only in other countries of the Western Hemisphere. In this manner we can make it possible for countries in the Western Hemisphere to supply larger amounts of foods and materials to Europe and at the same time maintain essential imports from the United States.

It is the opinion, therefore, of the National Advisory Council that the Economic Cooperation Administrator should be authorized to expend funds for the procurement of supplies for the Recovery Program outside of the United States. This would relieve pressure upon goods and services in short supply in the United States, and would in some instances have the further effect of assisting third countries in maintaining needed imports from the United States. We would not, of course, favor the use of dollars to buy goods abroad where the supplies available in the United States at reasonable prices are adequate for our needs as well as for the requirements of foreign countries. In any case, all purchases would be made according to an agreed program, and the administering agency would control the use of the funds appropriated by Congress. In addition to purchases in the Western Hemisphere, there are special instances where it may be in our interest to procure certain essential products in one participating country for delivery to another, making payment in dollars. For example, we might buy steel or coal in one participating country for delivery to another. The dollars which are received would then be used by the supplying country to pay for imports from the United States, thus reducing the need for direct expenditures by the United States for aid to the supplying country.

If the Recovery Program is to be successful, adequate measures for monetary stabilization must be taken promptly and with vigor by the European countries. At the Paris meeting the 16 participating countries undertook "to apply any necessary measures leading to the rapid achievement of internal financial, monetary and economic stability while maintaining in each country

a high level of employment." They have recognized that recovery is not possible as long as inflation continues, and unless production is increased. The measures which should be taken must vary somewhat from country to country, but the general outline is clear. Budgets should be brought into balance rapidly, so that the necessary expenses of government can be met without increasing the public debt and without increasing direct inflationary pressures. In most countries modifications in tax structures and control of expenditures will be needed. As determined steps are taken, the trend toward budgetary balances, increased production, and steadying prices will all interact upon one another to facilitate stabilization.

The Administration proposes that each country receiving aid from the United States shall enter into a separate agreement with this Government, which will cover the terms on which aid will be given. The European signatories will undertake to adopt the financial and monetary measures which are necessary to stabilize their currencies and to maintain and establish proper rates of exchange. These agreements will also cover such matters as cooperation with other countries, the proper use of the goods supplied, and the establishment of a separate account for the local currency equivalent to the aid supplied on a grant basis. Moreover, each country would agree to supply the United States Government with full information about any pertinent aspect of the Recovery Program and to give a report on the Program to its own people. On the basis of the information which the cooperating countries will give us, and also from the reports of our own missions in these countries, we can be informed about the situation and so be in a position to discuss with the country the measures which it has taken or ought to

take to contribute to the recovery of Europe and its own stability.

We have a direct interest in assuring that the aid we provide to Europe makes a maximum contribution to the reduction of inflationary pressures and the restoration of stability. To this end we propose that each participating country will deposit in a special account the local currency equivalent at an agreed rate of exchange to the dollar cost to this Government of the goods supplied through grants-in-aid. These accounts should be drawn upon only for constructive, stabilizing purposes. We must, however, avoid the fatal error of regarding the accounts as little "sub-Treasuries" in each country which we will spend as we see fit. In many instances it will probably be best either to let the accounts remain idle or to authorize the use of this local currency to effect a net reduction in the government's debt. There may be instances, however, in which it might also be used for reconstruction or development, or other purposes which would contribute to the increase of production in the country. In the view of the National Advisory Council, such expenditures should be undertaken only in agreement with this Government.

I wish to make it clear that the National Advisory Council, in considering the financial measures which the European countries should take, had very much in mind the necessity of preserving the spirit of free and friendly cooperation between this Government and the European governments. I am sure this country does not wish to dictate to these friendly countries either the particular measures they should take, or the exact manner in which they should be taken.

The adjustment of some exchange rates may be expected in the course of European recovery. Inflation in Europe in certain instances has given

rise to currencies overvalued from a long-run point of view. This state of affairs has tended to check exports, while imports have been relatively cheap. In some cases countries have resorted to export subsidies, through special exchange rates, or have used other measures in conflict with our own long-range international economic program.

The determination of an appropriate exchange rate is a very complex matter, involving the widest range of price, cost, and balance-of-payment considerations. The difficulties in setting exchange rates under present conditions are such that, although the rates of some of the participating countries will certainly have to be adjusted, the timing of these adjustments will vary from country to country. Accordingly, it would not be good policy for us to insist upon an across-the-board modification of exchange rates before we extend aid. The revision of rates of individual countries should instead be considered as a part of a developing program of internal and external stabilization in conjunction with United States assistance. To ensure that this will be undertaken where necessary, the recipient countries will be asked to agree that when, in the opinion of the United States Government, their exchange rates are imposing an unjustifiable burden on their balance of payments, they will consult with the International Monetary Fund about revision. Countries which are not members of the Fund would be expected to consult directly with the United States Government. The National Advisory Council is making continual studies of the exchange rate problem and is the agency directed by Congress to coordinate policy in this matter.

After progress has been made toward internal stabilization in the European countries by balancing budgets, increasing production, and expanding

trade, the time may be ripe for making stabilization loans which would give greater assurance to the people of the participating countries that the stabilization will be permanent. There is greater confidence in the stability of money if there is gold or dollars in the hands of the central bank. At the appropriate point in the Program it would be well worth while to give countries this additional assurance by extending a loan to provide monetary reserves. If the loan is given prematurely, the reserves might be dissipated through balance-of-payments deficits. A stabilization loan to be effective should come when there is reasonable assurance that the internal situation of the country concerned is satisfactory, and that it will be able to maintain its exchange rate at a stable level for a considerable period of time. It is not likely that this situation will be reached immediately, but it is possible that in the course of 1948, and probably in 1949, some countries will be in a position to use stabilization loans effectively. At the appropriate time Congress may then be requested to appropriate additional funds to be used by the U.S. Stabilization Fund to make these loans.

Before I conclude my remarks on this phase of the European Recovery Program I should like to comment briefly on the amount needed to carry it out. The President has recommended that $6.8 billion be appropriated to support the program during the 15 months ending June 30, 1949. The National Advisory Council has carefully reviewed the procedures which have been used by the inter-departmental committees of experts in arriving at this figure. These procedures involved a critical examination of European needs and of availabilities in the United States and in other major supplying areas, and careful estimates of European dollar income and resources. The National Advisory Council is-

believes that this approach is sound and has concluded that the recommended amount is needed to achieve the objectives of the program.

I should now like to turn from the problems confronting Europe to the problem which we must face in financing this Program. It would serve no good purpose to ask the European countries to put their own houses in order if we, ourselves, adopted methods which might accentuate inflation in the United States or upset our own economic stability. It is my firm opinion that we should finance the European Recovery Program within a balanced budget.

We can finance the programs of interim aid and recovery without unbalancing our budget for the fiscal year 1948 if we do not take hasty ill-considered measures to reduce taxes. You will recall that the President last August estimated that we would close the fiscal year ending June 30, 1948, with a surplus of $4.7 billion exclusive of the cost of the Recovery Program. We are now working on the revised estimates which will be submitted with the President's budget statement. But the outlook now is that the receipts will be higher than anticipated in August, largely because of the inflationary situation. Congress has appropriated $522 million under the Foreign Aid Act of 1947 and it is estimated that about $1.5 billion will be required for the long-range program during the remainder of the current fiscal year. It is clear that if we do not unwisely reduce taxes the Recovery Program can be financed within a balanced budget and that some surplus will still be available for debt reduction.

At this time it is not practicable to forecast the budgetary situation for the fiscal year of 1949. That can be done better after the current studies

and estimates on the budget are completed with respect to both receipts and expenditures. But I am confident that, so long as we pursue a sound fiscal policy, we shall be able to cover the cost of the European Recovery Program in fiscal 1949 out of current revenues.

TREASURY DEPARTMENT

Washington

Statement by Secretary Snyder on the European Recovery Program.

January , 1948

The President, in his message, has laid before you the Administration's proposal for a European Recovery Program and in greater detail the Secretary of State has described the need for assistance to Europe and the manner in which, and extent to which, it is recommended that American assistance be given. The financial aspects of the Program have been carefully considered by the National Advisory Council on International Monetary and Financial Problems. This is a grogram for the economic recovery of Europe; it is not merely a relief program. The Council throughout has approached the foreign financial policy issues involved to determine what specific lines of action would most effectively contribute to this basic objective of economic recovery. As Chairman of the Council, I welcome this opportunity to set forth the conclusions reached by the Council and then to comment on the financing of the Program.

First, I shall review the principal financial aspects of the Program, then say something about the measures which we shall expect the European countries themselves to take, and finally comment briefly on the financing of the Aid Program.

The first matter which I wish to take up is the question of the form in which aid should be extended to Europe. This assistance should be provided as a combination of grants-in-aid and loans. The criterion for selecting one or the other form should be the capacity of the participating countries to earn, in the years to come, the dollars which would be needed to pay interest and principal. We must keep in mind that those countries have already incurred an obligation for large annual payments of interest and amortization arising from the dollar loans extended to them over a period of years by the U. S. Government or the United States private capital market. We should take care not to insist that these countries contract additional dollar debts which will absorb so much of their dollar earnings as to operate to the disadvantage of future trade and private investment. If the entire aid for European countries were to be on a loan basis, it would be practically impossible for them to meet the additional annual charges from their earnings of dollars, even after trade and investment return to normal. The proportion of total aid which can prudently be provided on a loan basis must depend on the estimate of the borrowing country's capacity to repay in dollars and also on the degree of flexibility which can be introduced into the terms of repayment.

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The International Bank may be expected to finance part of the capital requirements of the European countries, particularly where they require the financing of permanent additions to their equipment. It does not seem likely, however, that the Bank will be able to carry the whole, or even the major, part of the Program which properly ought to be put on a loan basis. We propose, therefore, that when the Administrator for Economic Cooperation decides, after consulting the National Advisory Council, that it is desirable to extend aid on a credit basis, he will allocate the funds to the Export-Import Bank of Washington, which will then make the loan as directed and on terms specified by the Administrator in consultation with the National Advisory Council. This procedure will enable the Administrator to draw upon the broad experience of the Export-Import Bank in the making of foreign loans. Incidentally, this is one example of the manner in which the National Advisory Council would perform its customary role of coordination of U.S. foreign financial policy. I shall be glad to describe this role in greater detail if the members of the Committee wish me to do so.

It is also important that the American business enterprises be given opportunity to participate in the Recovery Program by making new investments abroad, or by expanding existing facilities where the Program calls for additional capital equipment. In this way they will contribute to the restoration of Europe, while at the same time they will be carrying out their own programs for expansion abroad. But we must recognize that new investments would be made at a time of great uncertainty and that investors may anticipate encountering difficulty in converting their earnings or their original principal into dollars. To facilitate private investment, therefore, it will probably be necessary for the Government to guarantee the convertibility into dollars of local currency earned by the investment or available for the repatriation of the original investment. While we may expect that the participating countries will try to make dollars available, it is possible that they will not have adequate dollars to permit conversion. The Economic Cooperation Administration should not be expected to guarantee American companies making these investments against normal risks, but merely to give them a transfer guaranty. We propose that not more than 5 percent of the funds appropriated by Congress for the Program should be obligated for these guaranties, and that the guaranties themselves should not exceed the amount of the original investment and should not be extended more than 10 years from the termination of the four-year program.

Some people have argued that the participating countries should pay for part of the Program by using up their gold and dollar assets in the United States, and by liquidating the American investments of

intended to cover the entire import requirements of these countries. It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate smoothly through ordinary commercial and financial channels. By insisting that the participating countries exhaust their gold and dollar balances, we would merely add further instability to their monetary systems. As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its long-run consequences. These investments annually earn a dollar income, which will be used to cover part of the cost of the Program, and which will be used in the future to meet part of the cost of imports after the Program ends. Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to require European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

Even if these countries could liquidate all of the property owned by their citizens in the United States, they could not pay for more than a small part of the Program. We estimate that as of last June 30 the dollar assets held by persons in the recipient countries amounted to about $4.8 billion. Of this amount $1.5 billion consisted of direct investments, and a considerable part of the remainder also consists of holdings which would be difficult to liquidate. Some of these assets are already pledged for loans, while for many of the countries involved the amounts held here are negligible.

Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports. In practice this may be an alternative to borrowing from the United States. We certainly will not object to the governments using these funds. The question of policy for us to decide is the extent to which we can help these countries in obtaining control of these assets. In the case of unblocked assets, the only way the European governments can get control of them under present circumstances is through the compliance of their citizens with local laws. In fact, a considerable portion of the assets formerly blocked in the United States has been unfrozen as a result of such action. While we do not have exact data on unblocked assets, we believe the amount is comparatively small.

A large part of the blocked assets are still blocked because their owners have not obtained from their own governments the certification that there is no enemy interest in their assets, which is required by

the United States Treasury before the assets are unblocked. The National Advisory Council and the executive departments concerned with this matter are giving very careful study to this problem. We hope to reach a final view as to the most satisfactory solution of this problem very shortly, and I should like at that time to appear before you again to outline our program.

It will not be possible to obtain all the goods needed for the Recovery Program in the United States, nor would it be desirable to attempt to do so. Some commodities are in short supply here, and purchasing abroad would leave more available for our own population and would in many instances reduce the net cost of the Program. The needed amounts of food cannot be obtained in the United States. A large percentage of the requirements of grain, fats and oils, meat and other agricultural products can be procured only in other countries of the Western Hemisphere. In this manner we can make it possible for countries in the Western Hemisphere to supply larger amounts of foods and materials to Europe and at the same time maintain essential imports from the United States.

It is the opinion, therefore, of the National Advisory Council that the Economic Cooperation Administrator should be authorized to expend funds for the procurement of supplies for the Recovery Program outside of the United States. This would relieve pressure upon goods and services in short supply in the United States, and would in some instances have the further effect of assisting third countries in maintaining needed imports from the United States. We definitely would not permit the use of dollars to buy goods abroad where the supplies available in the United States at reasonable prices are adequate for our needs as well as for the requirements of foreign countries. In any case, all purchases would be made according to an agreed program, and the administering agency would control the use of the funds appropriated by Congress. In addition to purchases in the Western Hemisphere, there are special instances where it may be in our interest to procure certain essential products in one participating country for delivery to another, making payment in dollars. For example, we might buy steel or coal in one participating country for delivery to another. The dollars which are received would then be used by the supplying country to pay for imports from the United States, thus reducing the need for direct expenditures by the United States for aid to the supplying country.

If the Recovery Program is to be successful, adequate measures for monetary stabilization must be taken promptly and with vigor by the European countries. At the Paris meeting the 16 participating countries undertook "to apply any necessary measures leading to the rapid achievement of internal financial, monetary and economic stability while maintaining in each country a high level of employment." They have recognized that recovery is not possible as long

as inflation continues, and unless production is increased. The measures which should be taken must vary somewhat from country to country, but the general outline is clear. Budgets should be brought into balance rapidly, so that the necessary expenses of government can be met without increasing the public debt and without increasing direct inflationary pressures. In most countries modifications in tax structures and control of expenditures will be needed. As determined steps are taken, the trend toward budgetary balances, increased production, and steadying prices will all interact upon one another to facilitate stabilization.

The Administration proposes that each country receiving aid from the United States shall enter into a separate agreement with this Government, which will cover the terms on which aid will be given. The European signatories will undertake to adopt the financial and monetary measures which are necessary to stabilize their currencies and to maintain and establish proper rates of exchange. These agreements will also cover such matters as cooperation with other countries, the proper use of the goods supplied, and the establishment of a separate account for the local currency equivalent to the aid supplied in the form of grants. Moreover, each country would agree to supply the United States Government with full information about any pertinent aspect of the Recovery Program and to give a report on the Program to its own people. On the basis of the information which the cooperating countries will give us, and also from the reports of our own missions in these countries, we can be informed about the situation and so be in a position to discuss with the country the measures which it has taken, or ought to take, to contribute to the recovery of Europe and its own stability.

We have a direct interest in assuring that the aid we provide to Europe makes a maximum contribution to the reduction of inflationary pressures and the restoration of stability. To this end we propose that each participating country will deposit in a special account the local currency equivalent at an agreed rate of exchange to the dollar cost to this Government of the goods supplied through grants-in-aid. These accounts should be drawn upon only for constructive, stabilizing purposes. In many instances it will probably be best either to let the accounts remain idle or to authorize the use of this local currency to effect a net reduction in the government's debt. There may be instances, however, in which it might also be used for reconstruction or development, or other purposes which would contribute to the increase of production in the country. In the view of the National Advisory Council, such expenditures should be undertaken only in agreement with this Government.

I wish to make it clear that the National Advisory Council, in considering the financial measures which the European countries should take, had very much in mind the necessity of preserving the spirit of free and friendly cooperation between this Government and the European

governments. I am sure this country does not wish to dictate to these friendly countries either the particular measures they should take, or the exact manner in which they should be taken.

The adjustment of some exchange rates may be expected in the course of European recovery. Inflation in Europe in certain instances has given rise to exchange rates which result in an overvaluation of the currencies in relation to the dollar. This state of affairs has tended to hinder the exports of such countries and, at the same time, to make imports relatively cheap in terms of local currency. In some cases countries have resorted to export subsidies, by means of special exchange rates, or have used other measures in conflict with our own long-range international economic program.

The determination of an appropriate exchange rate is a very complex matter, involving the widest range considerations relating to prices, costs, and balances of payments. The difficulties in setting exchange rates under present conditions are such that, although the rates of some of the participating countries will certainly have to be adjusted, the timing of these adjustments will vary from country to country. Accordingly, it would not be good policy for us to insist upon an across-the-board modification of exchange rates before we extend aid. The revision of rates of individual countries should instead be considered as a part of a developing program of internal and external stabilization in conjunction with United States assistance. To ensure that these revisions will ne undertaken where necessary, the recipient countries will be asked to agree that when, in the opinion of the United States Government, their exchange rates are imposing an unjustifiable burden on their balances of payments, they will consult with the International Monetary Fund about revision. Countries which are not members of the Fund would be expected to consult directly with the United States Government. The National Advisory Council is making continual studies of the exchange rate problem and is the agency directed by Congress to coordinate policy in this matter.

After progress has been made toward internal stabilization in the European countries by balancing budgets, increasing production, and expanding trade, the time will arrive when it may be appropriate to make stabilization loans which would give greater assurance to the people of the participating countries that the stabilization will be permanent. There is greater confidence in the stability of money if there is gold or dollars in the hands of the central bank. At the appropriate point in the Program it would be well worth while to give countries this additional assurance by extending a loan to provide monetary reserves. If the loan is given prematurely, the reserves might be dissipated through balance-of-payments deficits. A stabilization loan to be effective should come when there is reasonable assurance that the internal situation of the country concerned is satisfactory, and that it will be able to maintain its exchange rate at a stable level for a considerable period of time.

It is not likely that this situation will be reached immediately, but it is possible that in the course of 1948, and probably in 1949, some countries will be in a position to use stabilization loans effectively. At the appropriate time Congress may then be requested to appropriate additional funds to be used by the U.S. Stabilization Fund to make these loans.

Before I conclude my remarks on this phase of the European Recovery Program, I should like to comment briefly on the amount needed to carry it out. The President has recommended that $6.8 billion be appropriated to support the program during the 15 months ending June 30, 1949. The National Advisory Council has carefully reviewed the procedures which have been used by the inter-departmental committees of experts in arriving at this figure. These procedures involved a critical examination of European needs and of availabilities in the United States and in other major supplying areas, and careful estimates of European dollar income and resources. The National Advisory Council believes that this approach is sound and has concluded that the recommended amount is needed to achieve the objectives of the Program.

Finally, I should like to make a brief comment concerning the financing of the Program. It would serve no good purpose to ask the European countries to put their own houses in order if we, ourselves, adopted methods which might accentuate inflation in the United States or upset our own economic stability. It is my firm opinion that we should finance the European Recovery Program within a balanced budget. I am confident that, so long as we pursue a sound fiscal policy, we shall be able to cover the cost of the European Recovery Program out of current revenues.