

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 12, 1948

To Governor Szymczak and Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Knapp



Attached is a memorandum by Mr. Tamagna, who has been observing the progress of the European Recovery Program Hearings on our behalf. As has been made clear by newspaper reports, the principal issue thus far has been the question of organization and in particular the question of the extent of State Department control over the Administrator. Secretary Marshall made his point very clear when he stated emphatically that "there cannot be two Secretaries of State". The answer to this one has come from Senator Thomas, who has insisted with equal emphasis that "there cannot be two Administrators". I shall send you as soon as time permits a commentary on this problem of organization.

Attachment

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 9, 1948.

To Mr. Knapp

Subject: Hearings on ERP, Senate

From Frank M. Tamagna *FMT*

Foreign Relations Committee.  
(Secretary Marshall's testimony)

The hearings on the ERP before the Senate Committee on Foreign Relations opened yesterday (January 8, 1948), with Mr. Marshall testifying on the basic premises and the administration of the program. Mr. Marshall was accompanied by Mr. Douglas, who is presenting today his testimony on the economic background and objectives of the program. They will be followed, in order, by Mr. Harriman (on U. S. balance of payments' position and export program of steel, equipment and manufactured goods); Mr. Anderson (on food supplies and allocation); and Mr. Krug (on U. S. natural resources and availability of coal); Mr. Snyder (on financial aspects pertaining to N.A.C. jurisdiction); Mr. Martin (on Eximbank loan program); Mr. Royall and Mr. Forrestal (on Germany).

The opening of the hearings was uninspiring and undramatic. In his written statement, Mr. Marshall presented in broad outline the background, objectives, means and organization of the ERP, and stressed the fact that U. S. aid "must be adequate ... prompt ... effectively applied". The statement was dominated by the emphasis on the foreign policy aspects of the program. "It should, I think" (Mr. Marshall said) "be constantly kept in mind that this great project, which would be difficult enough in a normal international political climate, must be carried to success against the avowed determination of the Soviet Union and the Communist party to oppose and sabotage it at every turn". For this reason, Mr. Marshall pleaded for a unified control and direction of U. S. foreign policy and a close coordination of the program to the foreign policy of the nation. He firmly repudiated the suggestion of a Government corporation and manifested his preference for an administration "by a single responsible individual ... fitted into the existing machinery of government". He denied that the administration proposed in the bill would put the ECA "under the thumb of the Department of State" and gave assurances that he did not wish to interfere in the "proper operations" of the ECA. He expressed his conviction that he and his staff "can form a smoothly working team for handling the complicated relationships which would arise in the course of the program," and emphatically stated that "there cannot be two Secretaries of State".

The discussion which followed was similarly dominated by the problem of the relations between the Secretary of State and the Economic Cooperation Administration. Mr. Marshall referred to the examples of wartime agencies (Foreign Economic Administration, Office of War Mobilization) and indicated his strong desire that the coordination between the Department of State and the ECA be defined in the Act in unmistakable terms. At the same time, he stated that he did not want the Department of State to assume direct responsibility for the administration of the program -- and added that he had asked

Mr. Truman not to permit it at a time when such course was being seriously urged by some government officials. In face of criticism by some members of the Committee and of the fears expressed by others, Mr. Marshall appealed to the senators to trust his judgment and the judgment of the person who will be appointed as Administrator. He expressed his belief that both he and the Administrator would be able to conciliate their differences in most cases and added that in exceptional cases there would be open to both of them recourse to the President for final decision. Mr. Marshall reiterated his assurances that he will limit himself exclusively to problems of foreign policy and will leave business operations entirely in the hands of the Administrator. In an incidental way, he remarked that the Administrator might expect his major complications to arise from the NAC, to which he will be required to submit plans in advance of future dates.

Other highlights of yesterday's testimony may be summarized as follows:

(1) Mr Marshall said that the Department of State is carrying out the plan for the unification of the Allied zones of Western Germany, within the limitations of the Four Powers' agreements, but without awaiting further meetings or decisions of the Council of Foreign Ministers. He disclosed also that the Department of State will take over the administration of the American zone of Germany next June, upon completion of the necessary arrangements with the Department of the Army.

(2) In the reply to a direct and specific question, Mr. Douglas explained that the matter of loans vs. grants falls under the jurisdiction of the National Advisory Council, which has estimated, in a very rough way, that from 20 to 40 per cent would be in the form of loans and 60 to 80 per cent in the form of grants. He added that the determining factor in deciding whether to extend loans or give grants will be the capacity of the country to repay (based on its exchange position, exports, services, etc.) and not on the kind of commodities or goods supplied. In this, Mr. Douglas was disputed by Senator Wiley, who insisted that funds for equipment should be in the form of loans -- to which Mr. Douglas answered with an elementary explanation of the exchange and transfer mechanism. In reply to another question, Mr. Douglas explained that the role of countries like Switzerland and Sweden will be of "cooperator" rather than "beneficiary" of aid. Mr. Douglas, however, made no mention of different sets of terms, under which loans would be granted to various countries, or of the flexible clauses of repayment, which might be attached to most of the loans. This reference to loans came to an end amidst remarks by Senators, such as "how much will be repaid" or "what kind of collateral will be obtained" and the proposal that "a machinery should be set up with the program to assure the repayment of loans".

(3) A question was raised whether aid would be made dependent upon assurances by the recipient countries that there will not be any stoppage of work. Mr. Marshall answered by pointing out the political character of such problem and the fact that recently France successfully overcame a phase of strikes.

(4) Mr. Marshall went on record not only confirming the official opposition manifested by the Soviet Union against the ECA, but also with a view that an expansion of trade between Western and Eastern Europe and the inclusion of all European countries in the program would improve the economic situation of Europe generally.