

February 18, 1948

Governor Szymczak

National Advisory Council meet-

Mr. Knapp

ing today.

I should like to make the following comments concerning the items on today's National Advisory Council agenda.

1. War Assets Administration Credits

A. Greece. The Greek request for a War Assets Administration credit of 15 million dollars raises two important questions:

(a) In view of the fact that the Congress has appropriated funds specifically for the purpose of economic assistance to Greece during the period prior to the initiation of the European Recovery Program, the question arises of whether it would be appropriate for the Administration to draw further funds for Greece "out of another pocket" in the form of a WAA credit. However, I think that this matter is taken care of by the provision that the State Department should obtain clearance on the proposition from Congressional leaders.

(b) A more serious question is whether the Council would be justified in recommending to the War Assets Administration that it undertake the credit risk involved. For the purposes of the European Recovery Program, Greece is being classified along with Austria as a country which is unable to repay any assistance, and which therefore should be put entirely on a grant basis. I think it would be quite inconsistent for the Council to determine now that Greece can repay a WAA credit, even though this action seems expedient, in order to enable Greece to obtain aid from this source. At least it should be made clear that when the State Department takes this matter up with Congressional leaders it will specifically ask their approval for the use in this instance of WAA credit-granting authority despite the very dubious credit risk involved. If this is not done, the Council, it seems to me, would be assuming undue responsibility in approving WAA consideration of the proposed credit.

Finally, in view of the foregoing, and in view of the fact that there is much evidence to indicate that the Greeks will not be able to find more than 5 million dollars of domestic surplus property suitable to their needs, I would recommend that the Council adopt the second bracketed alternative relating to the amount of the credit: i.e., "5 million dollars without prejudice to, etc."

B. and C. Iran and Pakistan. The Staff Committee recommends that the Council approve WAA credits of 10 million dollars each to Iran and Pakistan. These proposals do not raise any serious question.

D. Italy. The Italian Government has applied for a 50 million dollar long-term line of credit from the War Assets Administration, but this subject has not yet received study by the Staff Committee, and there is considerable doubt as to whether it is appropriate in view of the fact that Italian needs are being covered by the Congress through direct appropriations (at present through interim aid and then through the European Recovery Program). It is proposed, however, that in order to give the Italian Government a chance to start searching immediately for surplus property suitable to its needs a short-term 5 million dollar credit should be extended, which would be repayable by May 1, 1948 if no long-term credit had been approved. This seems to be a reasonable proposition.

2. Statement on Inter-American "Financial Cooperation"

The Council is being asked to consider a chapter of the draft Basic Agreement for Inter-American Economic Cooperation which is being prepared for consideration at the Bogota Conference at the end of March. The chapter as a whole lays stress upon cooperation by the American Republics through the International Monetary Fund and the International Bank, but leaves the door open for operations with Latin American countries by the U.S. Stabilization Fund and by the Export-Import Bank and other U.S. Government lending agencies.

The only point on which the Staff Committee has any suggestion to make is on the section dealing with the use of international loans to cover local currency requirements. We feel that the present text is a little too generous on this point and that it should be tightened up in line with the language used in the Articles of Agreement of the International Bank and the Policy Statement of the Export-Import Bank. In both cases the general principle is established that international financing should not be sought for expenditures in local currency, but provision is made for departures from this rule "in exceptional circumstances".

JBK:ala