

February 20, 1948

Governor Szymczak

Mr. Knapp

Approval of consideration by
Export-Import Bank of the French request
for a short-term loan

I have been asked to inform the Treasury by telephone before the close of business today how we desire to vote on the following action proposed to the National Advisory Council by the Staff Committee:

"The National Advisory Council does not approve consideration by the Export-Import Bank of the French request for a short-term loan of 150 million dollars."

It is my recommendation that we vote for this action.

Attached is a paper on the subject prepared by a working group on which we were represented by Mr. Hirschman. This paper was reviewed by the Staff Committee yesterday afternoon.

It is clear that the French dollar position is very strained and that they will be in real trouble if the European Recovery Program is not initiated in April. However, we feel that we must proceed on the assumption that Congress will approve the European Recovery Program by that time. If this is not done, the situation of France and of several other prospective beneficiaries of ERP will have to be reviewed. It is considered premature, however, to try to meet this hypothetical situation now.

The specific French request to the Export-Import Bank is for a one-year credit of 150 million dollars to be repaid out of the proceeds of the liquidation of French private assets in the United States. Ordinarily this would not seem an unreasonable proposition, but the timing is particularly bad. Congress has voted interim aid to France during the first quarter of this year in the amount which it considered necessary to meet the situation during that period. Furthermore, to the extent that a loan is now made to cover French requirements in the second quarter of the year Congress would be strongly tempted to reduce the European Recovery Program appropriation correspondingly. Finally, there are other possibilities still open to the French, notably:

- (a) A settlement of French claims on the U.S. Army for supplies furnished to the American armed forces in France after the end of the war. This matter has been delayed because of failure of the French to produce the necessary documentary evidence, but a settlement should be reached within the next few days involving some 25-35 million dollars.

To: Governor Szymczak

-2-

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(b) Postponement of certain dollar payments due to Belgium this month amounting to 18 million dollars. If France really has urgent need of these dollars it seems to me that this is the least the Belgians can do.

(c) The sale of additional gold or an increase in borrowing on gold from the Federal Reserve Bank of New York. The French are naturally very reluctant to resort to this extremity since it might damage public confidence in France in the program of monetary and financial reform.

I should mention that the Dutch recently made a similar proposition to the Export-Import Bank for a short-term loan against the liquidation of private Dutch holdings of American securities. The Dutch case was not as pressing as the French, and the Export-Import Bank turned them down without formal consultation with the National Advisory Council. As a direct result of this action, the Netherlands Government has now announced a program for requisitioning private Dutch holdings of American securities in order to expedite their liquidation. Incidentally, the Netherlands Bank asked the New York Bank a few days ago whether the New York Bank could make loans against requisitioned American securities. The reply, of course, was that no legal power existed for the making of such loans.

Attachment
(NAC Staff Document 205)

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