

SECRET

March 2, 1948

Governor Szymczak

J. Burke Knapp

The N.A.C. meeting which was scheduled for today has been canceled but we are asked to vote by telephone on the following propositions:

1. Relief Appropriation for Trieste, April 1948-June 1949

The Council is asked to state its view that the proposed relief appropriation of \$20 million for Trieste in the fifteen months April 1948-June 1949 is "appropriate and justified in the light of the foreign financial policy of the United States". The city of Trieste is at present administered by U.S.-U.K. Military Government pending the establishment of a local government under the supervision of the United Nations. Since July 1, 1947, the subsistence needs of the population have been met by the State Department out of foreign relief appropriations, but these funds will expire on April 1 of this year. The State Department plans to continue aid at the same rate during the next fifteen months; it should be noted that the required imports come almost entirely from dollar sources and that the British (as in the case of Germany) have declared their inability to share in dollar expenditures on behalf of the area.

It is pointed out in the attached paper that Trieste is not eligible for aid under the E.R.P. legislation until it becomes a member of C.E.E.C. (Committee of European Economic Cooperation). If and when it does become a member it may obtain from E.R.P. funds some further assistance for the promotion of recovery as distinct from straight relief. I have raised the question of whether the relief appropriation should not cover a period of only three months, on the assumption that within that period Trieste could become a member of C.E.E.C. and have all of its requirements covered thereafter out of E.R.P. funds. I was informed, however, that both the State and War Departments are very anxious to have the relief assistance for Trieste provided under separate legislation (as in the case of Germany) and that this procedure had already been agreed to informally by Congressional leaders.

I would, therefore, recommend approval of the action proposed above.

2. Role of the Export-Import Bank in E.R.P.

Congressman Herter, in testimony before the House Foreign Affairs Committee last Friday, repeated certain proposals contained in the Herter Bill as to the role of the Export-Import Bank in E.R.P. These differ very substantially from those contained in the Administration Bill as worked out by the N.A.C. and the State Department has asked the N.A.C.

To: Governor Szymczak

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to reiterate its position in letters from Secretary Snyder to the Chairmen of the Senate Foreign Relations Committee and the House Foreign Affairs Committee. A draft letter on this subject is attached with certain changes which I recommend for your approval.

I think the letter is more or less self-explanatory. Congressman Herter proposes to have the Export-Import Bank operate independently in the E.R.P. Program to the extent that the participating European countries can present loan projects which would meet the Bank's standards. In order to provide the Bank with adequate funds he would have the Congress increase the lending authority of the Bank by \$1.5 billion for use during the first year of E.R.P., with the proviso that any portion of this sum which the Bank found itself unable to use would be turned over to the Administrator for use by him in making grants or loans to the E.R.P. countries. Bill Martin has discussed this proposal at length with Congressman Herter but he has been unable to persuade the Congressman. All of the staff feel very strongly that the arrangement proposed in the Administration's Bill, under which the Export-Import Bank would act as Agent for the Administrator and use funds supplied by him, is a far more effective and workable arrangement.

Attachments

JBK:lgf

DRAFT

EARNOLD:lrn, 3/1/48

Dear Mr. Congressman:

In his testimony before your Committee on February 27, Representative Christian A. Herter recommended that \$1.5 billion from the first 12 months' authorization for the European Recovery Program be made available to the Export-Import Bank of Washington to be loaned by the Bank on its own initiative to participating countries to the extent that they are able to present projects qualifying for loans under present Export-Import Bank lending standards and procedures. It was further proposed that an arrangement be established whereby if the amount allocated to the Export-Import Bank was not utilized within a specified period the funds should revert to the Administrator for Economic Cooperation to be made available by him to participating countries on a loan or grant basis as he might determine.

The National Advisory Council believes that an arrangement of this kind would be undesirable. Before the Executive Branch of the Government submitted proposals on the European Recovery Program to the Congress, the National Advisory Council explored various possible procedures for the making of loans or credits under the Program. It was agreed that the Export-Import Bank should extend the credits because of its experience and facilities and to avoid having two agencies of the Government engaged in foreign lending. At the same time, it was recognized that all considerations called for an over-all unified program controlled and directed by the Administrator.

The problem confronting those who formulated the Program, therefore, was to utilize the Export-Import Bank within the framework of such an over-all unified program. This has been achieved by the logical and administratively sound device of having the Export-Import Bank extend the credits as agent of the Administrator. The National Advisory Council remains convinced that this is the approach that should be followed.

The proposal to authorize the Export-Import Bank to make loans under the European Recovery Program independently of the control and direction of the Administrator would make for confusion and controversy. The Administrator would be unable to prepare the careful and well integrated programs for assistance which will be so important to the success of the European Recovery Program. Further, the determination of the amount to be voted to the Bank under the proposal would be largely arbitrary.

These objections are not met by providing that unutilized funds revert to the Administrator. The question would always be debatable as to when it could be said that the Bank was unable or unwilling to lend available funds and, therefore, the funds should revert to the Administrator. In any event, by authorizing the Administrator to make credits or loans after the failure of the Bank to do so, the Congress would be creating a situation which it has been the general desire, in both the Executive and Legislative Branches of the Government, to avoid. Two agencies of the Government would be making loans under the Program, and, what is equally

objectionable, under different standards for determining the appropriateness of the loans.

Copies of this letter are being sent to Representative Herter and to Senator Vandenberg as Chairman of the Senate Committee on Foreign Relations.