SECRET

Governor Eccles

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Chairman McCabe

Today's NAC Meeting

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Following are comments regarding the subjects on the agenda for today's meeting of the National Advisory Council:

1. Bilateral agreements: ERP countries' objections to clause on exchange rates

Europe's troubles have been aggravated by the existence of unrealistic exchange rates for many currencies, and the United States, in financing the ERP, needs to be assured that the measures of cooperation by European countries will include appropriate revisions of exchange rates at the proper time. To this end, the Economic Cooperation Act requires that each recipient country agree to "establish or maintain a valid rate of exchange", and Secretary Snyder as Chairman of the National Advisory Council testified as follows at the Senate and House Committee hearing on this act:

> ". . . 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."

The draft form of bilateral agreement, which ECA has submitted to the participating countries, therefore includes the following provision (Article X):

> ". . . Accordingly, the Government of the United Kingdom will consult with the International Monetary Fund concerning revision of its foreign exchange rate or rates, when and if the Government of the United States of America, after discussion with the Government of the United Kingdom signifies its opinion that such rate or rates are unnecessarily increasing the need of the United Kingdom or other participating countries for assistance from the United States of America."

The British Government has objected vigorously to the inclusion of a provision in this form, on the ground that the giving of such a unilateral right to the United States would create serious doubt in the minds of the British public as to the stability of sterling and would be politically very embarrassing to the British Government.

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The NAC Staff Committee unanimously believes that the deletion of Article X from the agreement would actually make little or no difference in the power of the United States to require consultations on exchange rates. This arises from the fact that each recipient government undertakes in Article III of the agreement to "establish or maintain a valid rate of exchange" and agrees in Article XIII "upon the request of the other government, to consult regarding any matter relating to the application of the agreement . . ." These two provisions together certainly commit each recipient government to consult with the United States on exchange rates at any time that the United States considers that the recipient country is not maintaining "a valid rate of exchange." And Article X would merely require consultation; it would not give either to the United States or to the International Monetary Fund the right to dictate a change in rate, although the United States (with or without Article X) could always threaten to suspend aid if any requested change in rates were not forthcoming.

The question about Article X, therefore, is not primarily a question of substance but is rather a political question. The British object to having the contents of Article X published in such a specific and conspicuous manner. On the other hand, in view of the emphasis that has been placed on the subject of exchange rates by many congressmen and other interested persons in the United States, there could conceivably be wide-spread misunderstanding and criticism in this country when it becomes known that this provision was in the draft agreement and was then deleted at the request of the British. There might be an implication that the NAC was not really firm enough in looking out for the interests of the United States. There might be adverse reactions when next year's ERP appropriation is before Congress.

The State Department and ECA, who are responsible for negotiating the bilateral agreements, are convinced that successful negotiation of the agreements requires deletion of Article X. Based on this view, and on the fact that Article X makes no significant difference in substance, the NAC Staff Committee is recommending to the Council that Article X be deleted. In considering this recommendation, the members of the Council will of course have to give full consideration to the various political factors involved.

I suggested that the Staff Committee, in drawing up the recommendation for the consideration of the Council, should include a provision that the Secretary of the Treasury should consult congressional leaders ad ascertain their nonobjection before the decision to delete Article X is actually put into effect. The other members of the Staff Committee, however, did not think that this would be practical. It is necessary that the bilateral agreements be ratified by the Parliaments of the recipient countries by July 3, and we are told that this requires that the agreements be placed before the Parliaments by next Monday, June 21. To reach a sound decision on the deletion of Article X would obviously require careful consideration of the rather

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complex factors involved, and the other members of the Staff Committee did not believe that such consideration could be obtained from congressional leaders during the next day or two.

2. ECA loans to Ireland

The NAC has recommended that ECA aid to Ireland be entirely on a loan basis. The Government of Ireland has now asked that some part of this aid be made grants instead, on the ground that Ireland is not likely to be exporting to the United States and therefore will not have any direct inflow of dollars with which to make repayments on dollar loans.

Ireland can be expected, in the long run, to have an over-all favorable balance of payments. Her exports will presumably be mostly to England, and in order to make payments on dollar loans, it will be necessary for Ireland to obtain dollars in payment for some part of her favorable balance with England. If the ERP as a whole is at all successful, Ireland should be able to obtain the amount of dollars that would be needed for this purpose. If Ireland is unable to obtain this amount of dollars, it will only be under circumstances that would require revision of loan contracts not only with Ireland but also with most other debtors in Europe.

Thus as an economic matter there seems every reason to stick to the Council's original decision of 100 per cent loans for Ireland. The Staff Committee is engaged in making a more thorough study of the long-term capacity of ERP countries to repay loans, and when this study is completed, some reconsideration of the Irish case may be in order. For the present, however, it would seem most unfortunate for the ECA to give any country a revision of its loan/grant ratio merely because that country has objected to the ratio assigned to it.

There are several special political factors that have to be taken into account. Ireland has threatened to reject all ERP aid if this country sticks to its requirement that aid be on a loan basis. On the other hand, since Ireland was neutral and sustained no war damage, and therefore does not have the kind of reconstruction problem that most other ERP countries have, the making of the requested concessions would be hard to explain to the other countries. Furthermore, whatever loan/grant ratio is determined for Ireland at present, a mission from Ireland between now and the 1948 U. S. election could probably exert considerable pressure toward having such a ratio reduced. Considering all these factors, the Staff Committee recommends that the Council reaffirm its previous view that aid to Ireland should for the present be on a 100 per cent loan basis.

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