May 24, 1949

Dear Mr. Secretary:

I enclose a memorandum about sterling devaluation which I hope you will think worthy of consideration.

With great respect, I am

Faithfully yours

The Honorable
The Secretary of the Treasury
Washington, D. C.

Enclosure
Secretary's Correspondence Division

Received at 9:15, Rm. 3405
Date 6-31-45

Enclosed

[Handwritten notes making it difficult to transcribe content]
May 24, 1949

Sterling Devaluation

I am not in favor of sterling devaluation under present conditions. Any considerable depreciation of the pound would aggravate the present recession and might well result in deflation, depression and unemployment here. That happened in 1920 and again in 1931 when the pound was depreciated. The pound struck a low of $3.19 in 1920 and $3.14 in 1932. Those are years of unhappy memory for the United States and the world.

On both previous occasions other powerful depressing factors were at work too. So they are now. Then as now the Federal Reserve had set in motion deflationary forces which they seemed powerless to arrest. Now again, recession has set in, and the western world, after a worse war than that of 1914, and living as it does in the shadow of the Russian threat, is less fit than then to endure a currency and exchange breakdown, and the consequent disruption of trade, production and employment.

Doubtless many currencies are officially overvalued and should be devalued. But not sterling. It is a key currency. It and the dollar are the world's great trading currencies. Its depreciation would be followed by general depreciation of other currencies in terms of the dollar. General depreciation of currencies in terms of the dollar would cause depression here, and lead to demands for higher tariffs, and cessation of Marshall aid and lend lease; and ultimately to depreciation of the dollar as in 1933. Devaluation of the pound would begin a destructive cycle of competitive depreciation of currencies, the very thing that it was hoped at
Bretton Woods to avoid.

There is little reason to suppose that the problem of the dollar shortage would be solved by the depreciation of the pound. The shortage of dollars arises not from the $4 price of the pound, but from the need of England to import American food and raw materials to feed her people and her machines, and the inability of her socialized, planned and regulated economy to compete in the dollar markets, except in luxuries, with the now greatly expanded and much more economical and efficient free enterprise economy of the United States, and over the still high American tariff.

It is not fundamentally a question of price but of the relation of supply to demand. Europe needs more of our exports than we need of hers. Lower prices are desirable but they cannot alter the fundamental equation. The dollar shortage arises from the fact that the United States is a net exporter of farm products and manufactured products and is a creditor on capital account. Debasing the pound won't change that grim fact.

American imports will rise with American wealth and fall with American adversity. Any program directed against American exports, and so against American prosperity, will defeat its own ends. This applies to European import restrictions of all kinds, of which one of the most formidable is pound depreciation. The road to recovery is expansion not contraction of trade.

Britain's problem is on the way to partial solution through the reduction of world prices for food and raw materials with the consequent improvement in her terms of trade. The rest of
her problem is to effect a reduction in her costs and export prices. That cannot be accomplished by increasing the cost of her necessary imports of food and raw materials, as depreciating the pound would do.

Britain's best hope is to expand her exports to the sterling area and to increase her imports from it, and to expand multilateral trade, and to create stable world conditions favorable to the movement of American capital to underdeveloped areas. To that end every effort should be made to increase confidence in sterling, the world's great trade currency. With American aid it has stood firm at $4 for a decade. It should be easier to hold it there than to restore confidence in sterling at some new value after confidence has been lost by devaluation.

I can see nothing but disaster as the result of any considerable depreciation of the pound under present conditions. On the contrary our objective should be to help to strengthen sterling and, as soon as may be, to restore its convertibility at least for current transactions, excluding war loan and capital movements; and under proper conditions we should be prepared to use Marshall aid to buy sterling to support it, if and when the British are again prepared to attempt convertibility.

R. C. Leffingwell
General Purpose:

The purpose of the Bank is to aid in financing and to facilitate exports and imports and the exchange of commodities and services in foreign trade. It is directed to supplement and not to compete with private capital. Its loans are normally for specific purposes and they must offer in the judgment of the Board of Directors reasonable assurance of repayment.

History:

The Bank was originally established in 1934 by Executive Order in connection with the National Recovery program as an agency of the Government, incorporated under the banking law of the District of Columbia. The Bank was continued as an agency of the Government (incorporated under D. C. law) by acts of Congress in 1935, 1937, 1939 and 1940. The lending power was limited by Congress to $100 million in 1934, increased in 1940 to $200 million and then to $700 million.

The Export-Import Bank Act of 1945 (as amended in 1947) incorporated the Bank under federal charter as an agency independent of any executive department, and authorized it to have outstanding at any one time loans and guarantees not exceeding in total $3.5 billion.

Source of Funds:

The capital stock is now $1 billion paid in by the U. S. Treasury. Prior to 1945 $1 million common stock was held by U. S. Treasury and $174 million preferred stock was held by RFC.
The Bank is now authorized to issue to the U. S. Treasury notes or other obligations not to exceed $2.5 billion. Notes issued after June 30, 1947 bear interest at a rate determined by the Secretary of the Treasury after considering the current rate on outstanding marketable obligations of the United States.

The note obligations of the Bank at December 31, 1947 comprised

$516,200,000 at 1% interest (issued prior to 7/1/47)

212,150,000 at 1-7/8% interest (issued after 6/30/47)

$728,350,000

No dividends have been paid on the presently outstanding capital stock (or on the common stock outstanding prior to 1945). Dividends at 2½ per annum were paid on the preferred stock to its retirement in 1945.

The Bank has estimated that its surplus at December 31, 1947 ($83 million, retained as reserve for possible future losses) would have been $50 million if the Bank had paid interest on the Government's entire investment in the Bank at rates equivalent to the interest cost of marketable obligations of the United States.

**Administration:**

The Bank is managed by a Board of five Directors, four appointed by the President (confirmed by the Senate) and the Secretary of State ex officio, who may appoint as his deputy an officer of the Department of State whose appointment to that
Department has been confirmed by the Senate. No more than three members of the Board may be members of one political party. The appointed directors serve a five year term presently expiring in 1950, and devote their time principally to the business of the Bank. The President of the United States designates one of the directors as Chairman.

The Secretary of State has no more statutory authority as a director than any other director. However, in practice the Board refrains from granting credits which the Secretary deems detrimental to United States foreign policy. On the other hand, the Board declines to make loans desired by the Secretary unless they conform with the Bank's usual requirements.

The Bank consults on matters of policy with the National Advisory Council which is charged with coordinating all foreign financial dealings of the United States. This Council comprises the following:

Secretary of the Treasury, Chairman
Secretary of State
Secretary of Commerce
Chairman of the Federal Reserve System
Chairman of the Export-Import Bank
Administrator for Economic Cooperation

The Board relies extensively upon the recommendations of the Bank's staff committees. The committees comprise representatives of any or all of the following staff groups:

Economists
Engineers
Loan examiners
Legal staff
Private capital division (seeks participation of commercial banks)
Present Board of Directors:

William McChesney Martin, Jr., chairman and president, appointed November 1945. Age 41. Formerly president N. Y. Stock Exchange; Colonel, U. S. Army.

Herbert E. Gaston, vice chairman, appointed November 1945. Age 65. Formerly Assistant Secretary of the Treasury.


Clarence E. Gauss appointed December 1945. Age 61. Formerly in foreign service with Department of State, Ambassador to China 1941-4.

Willard L. Thorp (as deputy for Secretary of State), Assistant Secretary of State for Economic Affairs. Formerly director of economic research of Dun and Bradstreet; chairman of board of General Public Utilities Corporation.

Types of Project:

Routine imports generally find adequate financing from commercial banks and the Bank has relatively little such business. Indirectly the Bank fosters imports by financing exports for projects which will increase the flow of visible and invisible imports. Also some projects are aimed at reducing the drain on foreign-owned dollars by fostering foreign production of goods which foreigners would otherwise seek to buy in the United States.
The Bank’s export financing covers such things as:

(1) Raw materials and commodities
(2) Construction of railroads, roads, harbor facilities, etc.
(3) General industrial, agricultural and mining machinery
(4) Engineering and other technical services

Export credits may be granted to a foreign government, governmental agency or private entity purchasing from many United States manufacturers and exporters, or to a United States exporter to finance transactions with a foreign buyer.

Considerations influencing the Board in granting or refusing credits are:

Economic position of the recipient country - its balance of trade, dollar holdings, exchange position, etc.

Economic effect of the project.

Increase in the recipient country’s dollar holdings consequent on the project.

Ownership by U. S. nationals and the availability of materials and services to be purchased.

Impossibility of financing by other means.

Adequacy of "equity" interest in the transaction.

Life of the loan.

Approval by the foreign government and, in most cases, credit and exchange guarantees.
Defaults:

During the entire history of the Bank six loans, reduced at March 15, 1943 to $272,000 including interest, have been defaulted and reserved for in full; the amounts originally disbursed on these six loans totaled $1,484,000. At December 31, 1947 four Latin American loans aggregating $1,133,000 were delinquent; by April 15, 1948 two loans of $477,000 and $151,000 had been collected in full and collections made on the two others.

Terms of Loans:

Most of the Bank's financing is done by extending a line of credit of definite amount with an expiration date. Disbursements are not made until the Bank receives satisfactory evidence that the materials have been purchased or the services rendered. This ensures that the money is spent in accordance with conditions prescribed by the Bank.

Interest rates charged to borrowers range from 2½ to 4½% (occasionally up to 6%) per annum. It has not been the practice of the Bank to charge a fee on undisbursed commitments.

Loans of the type now being made fall due in instalments over periods ranging from 1 to 10 years. Certain loans for reconstruction made immediately after the war run for longer periods, up to 30 years; since the International Bank became operative the Export-Import Bank has discontinued this type of loan.

Economic Cooperation Act of 1948:

Under this Act, the Bank, as agent, will make and administer loans authorized by the Administrator for Economic
Cooperation. Such loans will not be considered in computing whether the Bank's loans and guarantees exceed $3.5 billion. The Administrator in consultation with the National Advisory Council (of which the Bank chairman is a member) is charged with determining whether assistance to a foreign country shall take the form of a loan or a grant.

**Staff and Volume of Business:**

At December 31, 1947 the Bank was operating with total personnel numbering about 120. Total salaries and wages in 1947 were $606,000; other expenses amounted to $150,000. Loan applications received in 1947 numbered 97 and 23 credits amounting to $614 million were authorized in that year.

Some increase in staff will probably be necessary to carry out the Bank's duties in connection with the Economic Cooperation Act.
Subject: Lending Policies of Export-Import Bank

Recommended Action:

1. The National Advisory Council is of the opinion that the field of activity of the Export-Import Bank in extending (or guaranteeing) foreign credits, in relation to the field of activity of the International Bank for Reconstruction and Development, should be as set forth in the attached Statement of Principles.

2. The Council proposes that each application for an Export-Import Bank loan or guaranty in the period immediately ahead shall be subjected to more severe scrutiny, with the requirement of a stronger showing that the proposed financing would be positively in the national interest of the United States and that the funds cannot be raised on reasonable terms through private channels on either a loan or an equity basis. This policy would be applied generally to lending policies of U. S. Government agencies.

3. The Council has also considered the question of setting up a new U. S. Government agency or fund for the purpose of making loans to foreign countries, where such loans might not meet the present Export-Import Bank requirement of "reasonable assurance of repayment" but where assistance in the form of loans would be desirable for political purposes. The Council does not believe that any agency or fund for this purpose should be established at the present time.

4. Should it become necessary to establish any new fund for extending assistance to foreign countries in cases not covered by the functions of existing institutions, the administrator of this fund should have discretion to extend such assistance either on a grant basis or, with the advice of the Council, on terms calling for repayment.
STATEMENT OF PRINCIPLES GOVERNING THE UNITED STATES POSITION ON EXPORT-IMPORT BANK CREDITS IN RELATION TO THOSE OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1. The International Bank should be the normal source of loans for development projects involving direct financial obligations of a member government or governmental agency or its guarantee of the obligations of other borrowers.

2. The Export-Import Bank should not make (or guarantee) loans within the purview of the International Bank, except in special cases, such as those in which important interests of the United States warrant departure from the general principle, or an additional credit is required to continue the project initially financed by the Export-Import Bank, or a loan is for the development of strategic material for importation into the United States.

3. Loans to private United States businesses or their affiliates, without governmental guarantee, may be considered by the Export-Import Bank on their merits.

4. United States exporter credits in member countries, at the instance of United States suppliers, involving orders for purchase of United States equipment, may be considered by the Export-Import Bank on their merits if they are for such transactions as would not fit into the normal pattern of International Bank project lending. In view of the revolving nature of Export-Import Bank funds, these credits normally should be of short-to-medium-term.

5. Commodity loans to finance the export of United States commodities, short-term in nature, may be considered by the Export-Import Bank on their merits.

6. Loans and other credits by the Export-Import Bank in countries which are members of the International Bank should be coordinated with the International Bank's lending program by consultation between the two Banks, and due weight should be given to whether such loans may endanger the repayment of loans made by the International Bank, unduly limit its future lending in the member country or run counter to governmental programs or priorities on which that Bank is planning its lending activities.

7. Loans in countries not members of the International Bank, whether governmental or private, may be considered by the Export-Import Bank on their merits.
Attached are recommendations dealing with Export-Import Bank lending policies, intended to adapt these policies more closely to the present situation, and also dealing somewhat more generally with the question of extending loans in cases where financial aid in such form needs to be given for political reasons.

In connection with these recommendations, there is given below a summary of the Bank's statutory objectives and of some other relevant policy considerations. Thereafter, there follow some comments on "soft" loans and on the question of setting up a special agency to extend financial aid (regardless of ability to repay) where such aid needs to be given for political reasons. Finally, it is suggested that where aid on a basis intermediate between loans and grants is for any reason desirable, a form of "contingent repayment loans" would be free of the main objections applicable to other forms of "soft" loans. The term "soft loans" is used to mean any loans that are made without reasonable expectation that the borrower can and will repay them according to a fixed schedule which is reasonably in line with commercial terms.

Objectives of the Bank

The Export-Import Bank Act of 1945 states that the objectives and purposes of the Bank shall be "to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States . . . and any foreign country or the agencies or nationals thereof." The Act also provides that "the Bank in the exercise of its functions should supplement and encourage and not compete with private capital, and that loans, so far as possible consistently with carrying out the purposes of subsection (a) [quoted above], shall generally be for specific purposes, and, in the judgment of the Board of Directors, offer reasonable assurance of repayment."

Within the broad field of loans meeting these requirements, the Bank must (as General Edgerton has pointed out) apply a "highly selective process." In deciding which loan requests the Bank will grant, it seems clear that in a number of cases the determining factor has properly been the effect that a particular loan would have in giving positive support to some U. S. foreign policy objective -- although this does not seem ever to have appeared in any official statement.

The particular kinds of situations in which the Bank would make long-term development loans were described in May 1948 (in a report by the NAC) as follows:
"In general, long-term development projects are referred to
the International Bank in the first instance. The Export-
Import Bank makes loans which have a special and important
United States interest, for example, because the project is
designed to open up an additional supply of essential im-
ports into the United States, or because it requires United
States equipment and services of kinds which it is especially
desirable to export. Such interest may also exist because
the project is being sponsored and financed in part by pri-
vate United States interests, or because it covers a field
in which the Export-Import Bank already has participated fi-
nancially, or because the applicant country is not yet a
member of the International Bank."

Relation of the Bank to U. S. foreign policy

In cases where the chief justification for a particular foreign
loan rests on political factors, it seems desirable that this be explicitly
recognized in the consideration of the loan rather than disguising such a
loan as having primarily economic purposes. Such recognition within the
government of the essentially political nature of certain loans would not
necessarily require that these loans be publicly announced as political in
character. It would, however, facilitate the consistent application of
reasonable criteria to loan proposals.

In fact, the Export-Import Bank has been making such loans ever
since 1945, and it appears that the Bank is a suitable agency for this pur-
pose. It may be desirable, however, to have some clarification of the
Export-Import Bank's functions in this respect.

If the Bank did not make loans to further the political objectives
of the Government, there would seem little justification for a Government
bank of this kind. While the Bank is supposed to make only loans that are
economically sound and offer good prospects of repayment, and is expected
to be financially self-supporting, the Bank does not exist merely to earn
interest or profits on behalf of the taxpayers. As in the past, the Ex-
port-Import Bank (and the NAC), in passing upon applications, should be
advised by the State Department (or other interested agency, as the case
may require) as to the special political considerations involved in each
proposed loan.

It could be suggested that the making of loans which involve a
political justification is sufficiently different from the financing of ex-
port and import trade so that it ought to be in a separate institution.
However, the political effect might frequently be lost if the loans were
to come from an institution specifically established to lend for political
purposes. In addition, as a matter of Government efficiency, it would seem preferable and feasible for a single institution to handle these various fields of foreign lending on behalf of the U. S. Government. Furthermore, in many cases, a loan does not fall clearly in one of these categories to the exclusion of the other.

The foregoing discussion applies only to loans which meet the requirement of "reasonable assurance of repayment" and which therefore fall within the lending field of the Export-Import Bank. There must also be considered the possibility of loans which do not meet this requirement. It would appear that the giving of aid in the form of loans, under these circumstances, might best be considered as an alternative to grants, on occasions where the political situation would call for the giving of U. S. Government aid in some form regardless of the borrower's ability to repay. The possibility of such loans is therefore discussed in a later section which deals more generally with "soft loans".

Current operations of the Bank

The recent loans of the Export-Import Bank have fitted very closely the lending field outlined in the draft "Statement of Principles" dated September 24, 1953 (agreed between Mr. Black and General Edgerton) -- which, as will be seen, is quite parallel to the 1948 statement which has previously been quoted in this memorandum. The September 24 draft statement adds one important point, however, in that it provides specifically for consultation with the International Bank whenever the Export-Import Bank proposes to extend any type of loan (or guaranty) in a country which is a member of the International Bank. Such consultation should help to assure that the resources of the Export-Import Bank will be used to the greatest advantage.

Two further points might well be noted in this connection:

(1) The consultation provision should be two-way, making clear that the International Bank, when contemplating a loan (or guaranty) to a country where the Export-Import Bank has any substantial interests, should also consult the Export-Import Bank. The President of the International Bank has indicated complete agreement with this view.

(2) It should be clear that in all cases, particularly in case of disagreements, the NAC retains final authority to determine the U. S. position with respect to lending policies and approval of loan operations.
With regard to interest rates and other terms, when the Export-Import Bank extends credits for development or for other long-term purposes, the Bank should continue its present general practice of not offering more favorable terms than would be available on loans by the International Bank.

In the interest of maintaining the usefulness of the Export-Import Bank as an instrument of U. S. policy, it seems desirable to maintain the Bank's right to extend credit in any of the fields assigned to it in the September 24 draft statement. When other national policies call for restricting the volume of Export-Import Bank lending, this might best be done by the application of more severe tests in the scrutiny of each loan application, such as by requiring that each proposed loan be more positively shown to be in the national interest of the United States.

Cooperation with private capital

Under present circumstances, it is desirable for the Export-Import Bank to increase the emphasis on its function of encouraging private capital investment abroad. In view of the special need of minimizing the amount of Government funds disbursed, the Bank has entered upon a new program whereby foreign credits may be extended by private capital under guaranty arrangements of the Export-Import Bank. Such guaranties should be arranged so as to be conducive to a gradually increasing volume of financing in which private capital itself would undertake the necessary risks. One step in this direction might be the introduction of partial guaranties, such as guaranties covering only exchange risks, or covering only the portion of the loan with longer maturities, in place of full guaranties. Efforts of this kind are particularly desirable at the present time because the improvement in the financial positions of many foreign countries provides a more attractive basis for private loans and investments abroad.

The encouraging of private capital requires the best possible judgment in determining case-by-case the effects that would result from the withholding of the Bank's credit or its guaranty. Where private capital could be found to provide the financing and assume the risks, the Bank must avoid displacing it. In other cases, however, assuming that the transactions to be financed would be positively in the interest of the United States, it would be undesirable for the Bank to withhold its credit because of any erroneous belief that private capital can be obtained.

In this connection, it is important that the interest rates charged by the Export-Import Bank should be high enough to assure that borrowers will go to the private market whenever they can. However, in those cases when the Bank gives its guaranty in connection with a loan from private sources, the interest rate payable to the private lender should be kept as low as possible in order to maximize the incentive for the lenders to consider the extending of credits at their own risk.
Objectionable features of "soft loans"

When the question of aid for special political objectives is being discussed, possible provision for "soft loans" must be considered -- that is, provision for cases in which the interests of the United States, or special circumstances of the particular case, call for extending the aid on a repayment basis rather than a grant basis, and where at the same time there is no adequate assurance that full repayment will actually be obtainable.

The kind of loan that is particularly objectionable is one in which the loan contract is at variance with the expectations of one or the other party (or both parties) as to the repayment that the borrower is actually going to make. This applies particularly to cases in which the loan contract calls for the borrower to repay fixed amounts of principal and interest on specified dates, if it does not really seem likely that the borrower will be in a position to make those payments. Many of the same evils arise if, instead of taking the form of a loan repayable in dollars, the U. S. Government agrees to take payment in local currency, if the amount of local currency is more than this Government is likely to need for current uses and if there is no clear understanding as to the disposition of the excess.

There are several reasons why credits of these kinds are undesirable:

(a) From the viewpoint of investors (including the World Bank) who might contemplate the making of loans or investments in the foreign country, and who would want to know whether the country's outstanding liabilities may already be too great, these obligations to the U. S. Government would appear as real liabilities.

(b) As payments fall due and cannot be met, the necessity of renegotiation or default must necessarily introduce an element of tension into our economic relations with the borrowing country. While it may be claimed that the U. S. would at that time have some extra bargaining power (because of our ability to waive payments in exchange for some new concessions from that country), it seems likely that the disadvantages of producing such situations would ordinarily prove very much greater than the benefits.

(c) The initial benefit to the U. S. from extending credits of these kinds is much less than if the aid had been given on a grant basis, because of the requirement that the recipient country assume the obligations involved (even though it may be doubted whether those obligations will ever be fully met).
Even where the loan contract provides for consultation between lender and borrower when difficulties arise, these various disadvantages still exist in large measure.

**Contingent repayment loans**

Assuming that "soft" loans of the foregoing types are to be avoided, there remain at least three forms in which financial aid could be extended to a foreign government:

(a) Real loans, based on analysis of the borrowers' ability to repay, and made with the expectation of full repayment according to schedule.

(b) Grants, which may be made in connection with agreements or undertakings of various kinds by the recipient but which do not call for repayment to the United States.

(c) An intermediate form, which may be referred to as "contingent repayment loans", in which it is agreed from the beginning that the rate of payments to be made by the borrower will depend on future changes in some agreed measure of the borrower's ability to pay. Thus, while there would be flexibility, the evils of the kinds of soft loans mentioned in the preceding section would be avoided. The outstanding example of such a loan arrangement at present is the arrangement for interest payments on the Anglo-American loan of 1946; while there have been problems and difficulties in the administration of this loan, the study of this experience may help to avoid similar difficulties in any future "contingent repayment loan" contracts.

Contingent repayment arrangements in appropriate cases might enable the United States to obtain higher payments, during prosperous periods, than the debtors could have committed themselves to pay on a fixed basis. At the same time the arrangement would avoid debt burdens that might prove undesirably heavy in depressed periods.

Despite the seeming advantages of giving aid in the form of such "contingent repayment loans" -- e.g., for financing basic economic development projects in underdeveloped countries of Asia -- there would be a number of problems in introducing them. In particular, it would be difficult to introduce such loans while also expecting the recipient countries to try to attract World Bank and private investment. The borrowers would be likely to prefer borrowing on a contingent repayment basis, and it would be very difficult to set up standards for determining whether a given project could be financed on this basis or whether regular World Bank or private financing should be required.
On the other hand, where aid is to be given and it is clear that the country’s ability to repay would not justify any loan on a fixed repayment basis, the U. S. Government may wish to go some distance in specifying the conditions under which the recipient would use the aid. The giving of assistance on a grant basis (as heretofore) would give the U. S. Government more power in this direction than if the aid were to take the form of a contingent repayment loan.

It is therefore difficult to envisage the extent to which contingent repayment loans might be a suitable form to use when political circumstances dictate the giving of special aid to a foreign country. When and as special problems of this kind arise, the extension of aid on this basis might be considered case-by-case.

Question of a new lending institution

The foregoing discussion seems strongly to indicate that any proposal of a new lending institution, to make "soft" loans for political purposes, would be premature at this time. This is because the indications are strongly against the making of "soft" loans of the objectionable types described in the first section of this note, while there is not enough experience to advocate the establishment of an institution to make loans on a contingent repayment basis. For many purposes and in many kinds of cases, where the objective is political, it is likely that a grant would be preferable to any kind of loan.

If any special fund were to be established for the giving of aid to foreign countries in special situations, it would seem preferable for the legislation establishing the fund to permit the aid to be given entirely on a grant basis, but permitting the administrator to make loans instead where the circumstances justify. It should further be provided that the administrator should in each case consult with the NAC on the question whether and on what terms the prospective recipient would be able to repay. Where the administrator then decides to give the aid on a loan basis (calling for either fixed or contingent payments), the terms would be fixed in consultation with the NAC.
To all to whom these presents come, greeting:

This is to certify that THE HONORABLE WILLIAM MCC. MARTIN, JR. has been designated an Alternate Delegate of the United States to the Extraordinary Session of the Inter-American Economic and Social Council (IA-ECOSOC), to be held at Washington, D.C., beginning March 20, 1950.

FOR THE SECRETARY OF STATE:

WASHINGTON, D. C.,

March 17, 1950

DATE
The Honorable
William McC. Martin, Jr.,
Assistant Secretary of the
Treasury in Charge of
International Finance.
country cannot be adequately met by the Federal Reserve System under the new banking law, but in order that this be done knowledge is necessary, sincerity is necessary, ability to read the factors of economic change is necessary, and the courage for independent action is necessary even though it is realized that criticism may be severe and that it will come whatever is done. It is also essential to bear in mind that the System of itself can really accomplish very little without the thorough cooperation of the Treasury Department. The System and the Treasury must act together to achieve the proper results.
CONFIDENTIAL

PROGRAM OF VISIT OF SECRETARY SNYDER,
Assistant Secretary Martin

Saturday, July 16

Morning: Audience with Pope 9:00 am
Visit to Treasury Office 11:00 am
Conference, financial-monetary authorities 12:00 noon
At Viminale. Present:
Minister of Treasury, Fella;
Minister of Finance, Vanoni;
Governor of Bank of Italy, Menichella

Agenda Italian authorities hope to cover:
- General summary Italian financial situation
- Comments on ERP
- Plans beyond 1952
- Sterling problem
- Need for normal dollar reserves
- Point 4 and Italian emigration
- Customs tariffs
- Fiscal reform

Mr. Zellerbach’s luncheon for Secretary Snyder at Restaurant Faro 1:30 pm

Afternoon:
Conference, foreign trade - economic authorities 5:00 pm
At Viminale. Present:
Minister Tremelloni, Italian delegate to OECE, Chairman of Inter-Ministerial Committee on ERP;
Minister of Foreign Trade, Bertone;
Minister of Agriculture, Segni;
Minister of Industry, Lombardo

Prime Minister de Gasperi and Minister of Treasury Fella giving dinner at Villa Madama 8:30 pm

After dinner: Opera: La Tosca.
SCHEDULE FOR SECRETARY OF THE TREASURY SNYDER AND PARTY

FRIDAY - July 22

Leave Cairo  9:00 a.m.

Arrive Hassani  12:00 noon to 12:30 p.m.

To be met by The Ambassador

Mr. Nuveen
Mr. Minor
Colonel Wade
Colonel Smith
Captain Criggs
Mr. Blandford

To the Residence - 1. Mr. Snyder
2. Mr. Martin
3.  

To the King George - 4.
5.  
6.  
7.  
and crew of 8

Luncheon at Residence for 16 covers  1:30

Official calls (Accompanied by Ambassador)
5:00 - 5:15 p.m. - Prime Minister, Mr. Dimodes
5:20 - 5:35 p.m. - 1st Deputy Prime Minister, Mr. Tsaldaris
5:40 - 5:55 p.m. - 2nd Deputy Prime Minister, Mr. Venizelos
6:00 - 6:15 p.m. - Minister of Finance, Mr. Helmis

To the residence - 6:25 p.m.

Reception at Residence - 7:00-9:00 p.m.

Buffet supper (75 guests remaining following reception) 9:30

SATURDAY - July 23

9:30 a.m. - ECA
1:30 p.m. - Luncheon at Yacht Club given by Greek Govt.

SUNDAY - July 24

8:00 a.m. - Leave Hassani for Washington

Arrangements for transportation and care of baggage have been made.
ANTICIPATED U.S. FOREIGN GRANT AND LOAN ASSISTANCE

The estimates given below of foreign grant and loan assistance were made on the assumption that we shall not be engaged in a major war, but that the Soviet Union will intensify its efforts to extend the orbit of its influence and control. Our objective in providing economic aid is to create situations of political and economic strength in the free world especially in critical areas whose present weakness may invite Soviet thrusts. However, as a consequence of increased demands on U.S. resources resulting from a military defense program that may require expenditures at a rate of $50 billion a year, claims on U.S. resources for foreign aid have been limited to programs that will meet most urgent and immediate needs. These programs have therefore been restricted to those fulfilling three broad purposes: (1) investment to increase the production and facilitate the distribution of critical materials directly needed for defense, (2) aid to strengthen the defense effort of our allies, and (3) aid to enable governments which are or can be expected to become friendly members of the free world to win the confidence and support of their own peoples as a solid foundation for political stability and national independence. To reduce the drain on U.S. resources, aid programs have been held to the minimum believed necessary to effect these purposes.

The basic
The basic task in Europe is to prevent regression from recovery levels now achieved as the European nations begin new rearmament programs. The basic task in other areas is to assist them to make progress toward meeting the aspirations and demands of their people for the satisfaction of their basic needs, to enable the governments thereby to command allegiance and support, and to maximize the output of materials essential to the continued strength of the free world.

In determining whether and to what extent to provide U.S. Government assistance in any given area, account has been taken of aid likely to be made available by the IBRD and other sources, and of increased dollar earnings that should result from expanded U.S. imports, upward price movements, and U.S. troop expenditures abroad. Aid has been scheduled in the form of U.S. Government loans for development projects normally regarded as bankable where it appears that recipients can carry additional dollar debt. Aid has been scheduled in the form of grants for technical assistance projects, including associated supplies and equipment required to make the technical assistance projects effective. In certain exceptional cases, grant aid has been scheduled for capital investment projects as well. This has been done only in the case of countries of great strategic importance to us, for which loans and investments cannot be contemplated in the near future and which, in the absence of certain capital goods, would experience rapid economic deterioration and political instability.

Making
Making available funds for carrying out the foreign aid programs outlined below will not in and of itself achieve the foreign policy results desired. It will be necessary that the essential supplies, many of which may be in short supply, be assured both for shipment under the aid programs and for shipment for essential purposes where the foreign countries themselves are able to furnish the necessary funds. To accomplish this purpose as well as to minimize the drain on the U.S. economy in the form of non-essential exports careful examination will be necessary of the scope of our export controls and the policies under which they operate.
Actual and Anticipated U. S. Government Grant and Loan Aid  
(Including Point IV but Excluding INLAP and Other Military Aid)  
($ million - fiscal years)

<table>
<thead>
<tr>
<th>Area</th>
<th>1951</th>
<th>1952</th>
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<td>Western Europe*</td>
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<tr>
<td>(Including Greece and Turkey)</td>
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<tr>
<td>Grant</td>
<td>-2/</td>
<td>30</td>
<td>30</td>
<td>30</td>
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</tr>
<tr>
<td>Loan</td>
<td></td>
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<td>225</td>
<td>225</td>
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<td>(Including Formosa)</td>
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<tr>
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<td>Grant</td>
<td>13</td>
<td>17</td>
<td>22</td>
<td>27</td>
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**TOTAL GRANTS:**  
**TOTAL LOANS:**  
**GRAND TOTAL:**

* The estimates of grant aid for Western Europe are still in discussion among ECA, the Department of Defense, and the State Department.
 FOOTNOTES

1/ Includes estimated supplementary appropriations (set forth in parentheses) which have not as yet been requested.

2/ The total ERP appropriation for 1951 is $, of which $60 million is programmed for loans and grants for African DOT's and is shown in the table as part of the aid to Africa.

3/ It is possible that further grant aid will be needed for Yugoslavia in 1952, the amount of which cannot now be estimated.

4/ The funds available for obligation in 1951 for Japan and Ryukyus is $32 million less than the Defense Department estimates to be needed. It is anticipated that the $32 million will be borrowed in 1951, and need for repayment is reflected in the 1952 aid estimate. With regard to the estimates for 1952, the Army is presently considering converting to a partial pay-as-you-go basis beginning July 1, 1951. In that event, about $1.40 million of the $1.74 million shown above for 1952 would not be appropriated for economic aid to Japan but would be made available instead to the Defense Department for its expenditures in Japan.

5/ The Defense Department's supplementary appropriation request for military activities in Korea will include $95 million, shown in parentheses above, for relief and rehabilitation of the Korean economy.
NOTES

Western Europe: The estimates for Western Europe are still in discussion among ECA, the Department of Defense, and the State Department.

Yugoslavia: Yugoslavia's disaffection from the Soviet Bloc has subjected her economy to severe strains because of abruptly severed trade relations with Cominform countries, heavy defense expenditures, and the greater need to succeed as a Communist state in rapid industrialization. It is in the U.S. interest that Yugoslavia remain outside the Soviet Bloc and maintain a viable economy.

To assist Yugoslavia to overcome the effects of the recent severe drought, grant aid of $74 million will be needed for expenditure in fiscal 1951. However, because certain government agencies are providing immediate food relief for Yugoslavia out of their existing appropriations, Congress will be asked to appropriate only $48 million. It is possible that, in consequence of the drought, further grant funds will be needed in 1952.

The IBRD rather than the Eximbank is expected to provide further loan funds for Yugoslavia's economic development.

Latin America: The program of economic assistance which is projected for Latin America is primarily one of production for defense purposes. The objectives are to increase the availability of critical materials which the U.S. will need for industrial and defense output, to maintain production of food and other items at a level adequate to meet the essential requirements of western Europe from this traditional source of supply, and to develop production which will minimize the dependence of Latin American States on imported food and other essential supplies in case
case of emergency. In addition, as a specific defense measure, it will be necessary to speed up the construction of the Inter-American Highway.

Increased U.S. procurement and higher raw materials prices will increase Latin America's dollar receipts and her capacity to service further dollar debt. Consequently, the major part of U.S. assistance to Latin America is scheduled in the form of loan aid (largely for transportation, fuel and power facilities). It is estimated that Latin America will require foreign capital for investment at a rate of about $350 million a year, of which the International Bank may be able to finance about $125 million a year, leaving about $225 million a year for U.S. Government loans.

Grant aid for Latin America includes $64 million over four years for completion of the Inter-American Highway, and about $28 million a year for an expanded technical assistance program, with particular stress on aid through the IIAA to increase indigenous food production.

Japan and the Ryukyus: The estimates of budgetary requirements for Japan and the Ryukyus Islands represent, for fiscal year 1951, funds actually made available for obligation; for fiscal year 1952, figures recently submitted by the Department of the Army to the Bureau of the Budget; and for other years, tentative projections by the Department of the Army.

The assumptions underlying them, particularly those relating to Japan's foreign trade prospects, are on the whole conservative. Should her foreign exchange earnings exceed the estimates, however, the more favorable economic position that would result from the projected level of aid in fiscal year 1952 would not be inconsistent with objectives of U.S. policy toward Japan.
The Defense Department is considering a partial pay-as-you-go arrangement to begin on July 1, 1951. If that arrangement is established, it would obviate the need for any GARIOA appropriation for economic aid to Japan, although GARIOA funds for administrative expenses and the reorientation program might continue to be needed.

South East Asia (including Formosa): The objective of U. S. aid is to strengthen the present moderate and Western-oriented governments in this area, to increase internal support for these governments, and to give concrete evidence at the grass roots of U. S. Government constructive interest in the local welfare.

The amount of aid actually required will depend on the direction and pace of current political and military developments. The estimates assume that there will be no serious political degeneration in the countries concerned and that those countries which are now suffering military and guerilla operations will become gradually pacified.

The grant aid program for STEM countries is substantially a continuation of the program recommended by the Griffin Mission and recently initiated under ECA. It embraces rehabilitation and development projects with strong emphasis on technical assistance and associated supplies and equipment for direct implementation of technical assistance projects, as well as consumer goods needed to raise local revenues for rehabilitation projects without embarrassment to the fiscal systems of the countries concerned. The projects cover a wide range, but particular emphasis is placed on health, agriculture, and transport.

U. S. Government loan assistance is provided for longer-term capital investment projects in Indonesia and Burma which have capacity to service further

SECRET
Thailand's needs for long-term capital investment will probably be met by the International Bank. Malayan needs should logically be the responsibility of the U. K.

The estimates for Formosa are projected on the assumption that Formosa will continue to be part of the free world, whatever the nature of the political arrangements that may be made respecting her status. Aid estimates for Formosa taper off in the later years, reflecting the assumption that increased productivity would enable the island to carry a greater portion of the burden resulting from a high level of Chinese military expenditures.

Korea: The studies of the damage to and requirements of the Korean economy in consequence of the hostilities have not been completed, and it will be many months before reliable figures can be obtained.

Estimates thus far compiled by ECA indicate that the total cost of foreign aid for reconstructing and restoring the Korean economy would be somewhat less than $1 billion. The capacity of the Korean economy to absorb imports requiring foreign financing is probably limited to $150 million per year. The absorptive capacity would be greater in the initial years, however, since a substantial portion of total requirements is for relief-type goods. The annual costs set forth are projected only through fiscal year 1955, but assistance beyond that date may be required if the country is to become self-sustaining.

It is assumed that the U. S. will bear 65 to 70 percent of the costs of a United Nations program.
Philippines: The payments and expenditures of the United States in the Philippines have supported the economy of that country since liberation from the Japanese forces. Without such assistance the large trade deficit and budgetary deficit would have resulted in a serious economic crisis and inevitable large-scale support of the Communists. However, U.S. funds were largely used for current consumption and were not in general applied to the basic development of the Philippine economy. The program projected above is designed to assist in the development of resources of the Philippines required to achieve viability and stability which are essential if the Philippines are to resist Communist pressure.

A minimum program designed to achieve viability will have to be based primarily on agricultural development but some increase in industrialization is justified. The major goals required to be reached are self-sufficiency in (a) rice, corn, fish, vegetables, and fruit; (b) increased sugar production for export to at least the U.S. quota total level and abaca production to the 1940 level; (c) modernization of selected mines and determination of location and extent of mineral resources; (d) expanded facilities for processing ores, wood, and agricultural products; (e) expanded hydro-electric power for the production of nitrogen fertilizer and for other purposes; (f) expansion of small-scale industry, and (g) improvement of public health and primary and vocational education to the extent required to provide the basis for economic development. In addition, if any economic development program is to proceed with reasonable prospects of success in the Philippines, it will be necessary that (h) the Government's budget be balanced by raising revenues substantially, and (i) that popular support among the agrarian population be enlisted by improving agricultural credit.
credit facilities, providing for land resettlement and redistribution, etc.

There is no immediate prospect of any substantial flow of private capital into the Philippines and it would appear that the economy is not strong enough to support loans for the minimum development required to achieve viability. With grant funds available for this purpose over the next few years, it is considered that public loan capital and private equity capital could then start to flow into the Philippines to support the type of development required for long-term stability.

New Zealand: New Zealand is not a member of the International Bank and will probably need Eximbank assistance to expand productive capacity. Aid to New Zealand is aid in the common defense effort.

Near East: This area because of its location for international transport and its oil production is of vital importance to the U.S.

Iran is more insistently under the pressure of Soviet proximity and interest than perhaps any other country. There is ferment and unrest in the neighboring Arab States. Immigration into Israel of Jews presently residing in Moslem States continues unabated and with it heavy economic burdens for the State of Israel. In addition there remain several hundreds of thousands of unsettled Arab refugees from the war between the Arab States and Israel.

The U.S. is already committed to assist in the resettlement of Arab refugees. In the case of Iran, it is desirable that the U.S. render effective assistance as tangible evidence to the government and the people of American interest in the preservation of the country's independence and to strengthen both the ability and the will to resist Soviet
Soviet aggression and communist subversion. It is necessary in the Arab States to provide assistance that will give some forward momentum to these static economies. In the case of Israel, it is in the U.S. interest that Jewish minorities be removed to places of safety and away from potentially explosive situations, and that the State of Israel, which is the haven for these minority groups, become a self-sustaining economy.

In addition to aid for the settlement of Arab refugees, the grant aid scheduled for this area is intended to cover the cost of an enlarged program of technical assistance and associated supplies and equipment, ranging from specific projects at the village level for the improvement of health, sanitation and education facilities, training in agricultural techniques and the provision of seed, tools and fertilizer, to broad survey and diagnostic missions.

Loan assistance is provided for capital investment projects in Israel, Iran, Lebanon, Saudi Arabia and possibly Egypt. (It may become necessary to increase the grant component for the Near East area if Iran is unable to secure loan assistance for necessary development projects.)

Africa: The bulk of the assistance for this continent is intended for the African dependent territories. The purpose of both the grant and loan aid is to expand and develop the production of strategic materials and associated improvements in transportation, power and port facilities, as well as indigenous food, fiber and other essential raw material production so as to increase and maintain the internal economic development of the African territories and their contribution to the Western European economies.
economies. The program is a continuation and expansion through the years 1952-55 of activities already underway in the ECA.

Western Europe's 1949 imports from overseas dependencies, largely in Africa, amounted roughly to about £2.5 billion in value. U. S. imports from these areas come to about £400 million in value. Raw material and food exports from these territories included rubber, palm oil, sisal, hemp, hides and skins, cork, copra, vegetables, fruits, cereals, sugar and dairy products.

It is anticipated that the aid will be made available through and in cooperation with the European colonial powers. If carefully administered the program should contribute not only to the objectives cited above but should also have the effect of increasing employment, productivity, and economic and political stability throughout Africa.

Aid has been scheduled in the form of loans to the extent that loan aid appears feasible.

Small amounts of aid have been scheduled for the independent countries of Africa, largely for technical assistance.

South Asia: The situation in the Indian Sub-Continent is one involving de facto economic deterioration to date and the prospect of continuing future deterioration as population growth outruns prospective increases in productivity. Continuing future deterioration appears inescapable unless external aid can be injected to reverse the trends that are now so clearly discernible. Reversal of these trends is an imperative vital interest of the U. S. India and Pakistan are of determinative importance in the pattern of Asian political
political relations. The present governments of India and Pakistan are moderate in policy and friendly to the West, and they continue to command the support of the wide majority of their people. However, support is giving way to apathy, and organized parties on the extreme right (fanatic religious groups) and the extreme left are gaining strength as economic conditions continue to deteriorate. These adverse political and economic trends might be reversed now by a substantial U.S. aid program, directed toward a replenishment of capital plant (in the form primarily of tillable land) and by a concomitant large-scale improvement in agricultural and industrial technique. If these adverse trends are allowed to gain strength, however, a situation might be created which—like that in China—could only be redressed through an effort lying beyond our capabilities.

The reason that aid to this area needs to be extended predominantly in the form of grants is that the economic development of these countries has been historically so retarded that their immediate capacity to service loans, particularly dollar loans, is extremely limited. Without grant assistance economic progress could be achieved only over generations.

The volume of aid for the Indian Sub-Continent has been determined largely on the basis of programs developed by these countries themselves and submitted to the Colombo Conference. These programs do not exceed the volume of activity which is considered an essential minimum if political stability is to be maintained. Account has been taken of aid likely to be made available by the U.K., other Commonwealth countries, and the International Bank.

It is
It is not supposed that a substantial aid program as scheduled for this area would of itself bring about significant increases in living standards. It is hoped, however, that beyond the prevention of economic deterioration and consequent political instability during the next few critical years, the recipient countries at the end of such a program would have established an environment that would encourage a maximum utilization of domestic savings and a reasonable flow of outside investment capital for further developmental activities.

Technical Assistance: The estimates represent the anticipated contribution of Point IV funds to the UN Technical Assistance Program, the OAS and other international organizations.