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UNITED STATES OF AMERICA
ECONOMIC COOPERATION ADMINISTRATION
SPECIAL MISSION TO THE NETHERLANDS

American Embassy
The Hague

December 16, 1949

His Excellency
Ambassador H. M. Hirschfeld
Regeringscommissaris voor E.R.P.
Ministerie van Buitenlandse Zaken
Smidswater 2
The Hague

Dear Mr. Ambassador:

Ambassador Harriman has requested that the enclosed draft working paper on "intra-European currency transferability and trade liberalization" be presented to you. This paper was informally distributed December 10 to the heads of the national delegations to the OEEC and discussed with them by ECA/ Washington and OSR/Paris representatives.

A request has also been made to hand you the attached "oral statement" describing in non-technical form the objectives which have been set forth in the draft working paper. Ambassador Harriman wishes to emphasize the highest importance which the United States Government attaches to the prompt and constructive action to attain those objectives. It should also be emphasized that the draft working paper represents the ECA's contribution to the discussion of what is now the most important and top priority problem for the future of OEEC and, indeed, the future of the European Recovery Program itself. Ambassador Harriman has asked me to point out to you that this oral statement is intended to help crystalize and stimulate effective action in order to accomplish what is believed to be the desires and hopes of the participating countries themselves. The statement moreover reflects various suggestions which have been advanced from many quarters in the course of previous discussions.

Sincerely,

R P Aikin

R. P. Aikin
Assistant to the
Chief of Mission

Attachments
RPA:emw

*B2, DGEM dossier 6106, Plan Petsche
omlay 1238*

ORAL STATEMENT

Underlying purpose of plan set forth in draft working paper is to free European countries from Bilateral trade and payments pressures which limit their own freedom of action, impede productive efficiency, and delay raising of living standards and ultimate viability of European continent. This cannot be done by any one country in isolation.

Central features of plan can be set forth as follows:

A. Establish early in 1950 definite plan, with appropriate time table by stages, for elimination bilateral quota restrictions among participating countries by July 1, '50, and substantial elimination or remaining quota restrictions among participating countries by end of '50.

B. (1) Adoption early in '50 of a system to replace present payments system which would establish full intra-European currency transferability providing freedom of intra-European payments on current trade account and maximum possible freedom of invisible transactions. Such system should be so designed as to make possible substantial continuance thereof after end ERP aid in '52. During ERP period enough ECA dollars will be injected into system to meet problem of structural deficits and surpluses in sufficient degree to eliminate impediments which they would otherwise create to the operation of system. System would include both automatic and administrative mechanisms of adjustment to control non-structural deficits and surpluses by providing incentives and pressures for both debtors and creditors to move toward equilibrium in over-all payments.

(2) Automatic mechanism would involve requirements for debtors to make appropriate partial settlements in gold or dollars and for creditors to provide credits or other financing. Administrative mechanism would center in operations of central pool of resources including ECA dollars. Resources from this pool would be available to assist debtors and creditors where automatic provisions for handling non-structural deficits and surpluses might subject a country to undue strain. Such assistance would be made available for varying periods of time and under appropriate conditions as to adjustment of economic policies in order bring about restoration of payments equilibrium.

C. System of full transferability described above would include virtually all participating countries including all sterling area. Special arrangements may be necessary for countries in extreme debtor position for exceptional reasons.

D. Administrative mechanism would operate under supervision body of highest competence established within framework of OEEC. During ERP period supervisory body would include a representative of ECA. ECA funds would be used with concurrence ECA representative.

E. ECA emphasis on proposals described above does not indicate any loss of interest in possibilities of even closer association within regional groups of participating countries provided of course that efforts of this kind are in keeping with and indeed facilitate overall European program.