

September 26, 1949

The Honorable
Arthur H. Vandenberg
United States Senate

Dear Senator:

Your question as to whether the ECA appropriation might properly be reduced because British devaluation will make it possible for the dollar to buy more goods outside the United States can best be answered if we consider first just where ECA dollars are spent. During the first 17 months of ECA operations 68 percent of ECA-financed procurement was for purchases in the United States and an additional 13 in Canada. This leaves only 19 percent for expenditure in other areas. (The figure for August of this year was 18 percent.)

Obviously, the dollar will not buy more commodities in the United States than before devaluation. In Canada a 10 percent devaluation has taken place. However, it is significant that Canadian metals, for example, have already moved to the United States dollar price level which obtained prior to the devaluation of the Canadian dollar. Dollar prices of grain, on the other hand, have softened. It is not expected that the average of U.S. dollar prices of Canadian commodities will fall significantly.

Of the 19 percent for expenditure in other areas than the U. S. and Canada, well over half consists of sugar and petroleum. Sugar comes chiefly from Cuba or from other areas, in none of which devaluation is in prospect. Approximately half of the petroleum comes from Venezuela where devaluation is not likely. The other half consists of dollar oil from the Middle East where as yet there is no indication of price reductions.

I think it is apparent from these figures that no very large proportion of ECA dollar purchases will be made in areas where prices will have fallen because of the direct effect of devaluation and that therefore no very significant savings to the program can be expected on this account.

There are two other facts which should be borne in mind in considering the question you raised:

1. The amounts contained in the Appropriation Bill are well below the figures we submitted as our estimates of the requirements. These estimates themselves included substantial allowances for lower prices and in many cases the prices used were well below present prices.



2. Due to the developing financial crisis, dollar earnings of the participating countries through exports fell off during the third calendar quarter to a point far below those upon which our estimates of dollar requirements were based. Certainly any small savings through lower prices outside the United States could not be expected to begin to make up for this adverse factor.

In my thinking about the question you raised, the above considerations would seem to me conclusive.

Sincerely yours,
(signed) Paul G. Hoffman
Administrator

